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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2016

Or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File number 1-6659

AQUA AMERICA, INC.
(a Pennsylvania corporation)
762 W. Lancaster Avenue
Bryn Mawr, Pennsylvania 19010-3489
(610) 527-8000
I.R.S. Employer Identification Number 23-1702594

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, par value $.50 per share	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
☑ Yes ☐ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
☐ Yes ☑ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☑ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
☑ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "small reporting company" in Rule 12(b)-2 of the Exchange Act.:

Large accelerated filer ☑	Accelerated filer ☐
Non-accelerated filer ☐ (do not check if smaller reporting company)	Small reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ☐ Yes ☑No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2016: $6,309,558,158

The number of shares outstanding of the registrant's common stock as of February 13, 2017: 177,445,993

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of the definitive Proxy Statement, relative to the May 3, 2017 annual meeting of shareholders of registrant, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, have been incorporated by reference into Part III of this Form 10-K.

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Part I

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K (the "Annual Report") are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that are made based upon, among other things, our current assumptions, expectations, plans, and beliefs concerning future events and their potential effect on us. These forward-looking statements involve risks, uncertainties and other factors, many of which are outside our control that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. In some cases you can identify forward-looking statements where statements are preceded by, followed by or include the words "believes," "expects," "anticipates," "plans," "future," "potential," "probably," "predictions," "intends," "will," "continue" "in the event" or the negative of such terms or similar expressions. Forward-looking statements in this Annual Report include, but are not limited to, statements regarding:

- recovery of capital expenditures and expenses in rates;
- projected capital expenditures and related funding requirements;
- our capability to pursue timely rate increase requests;
- the availability and cost of capital financing;
- developments, trends and consolidation in the water and wastewater utility and infrastructure industries;
- dividend payment projections;
- opportunities for future acquisitions, the success of pending acquisitions and the impact of future acquisitions;
- the capacity of our water supplies, water facilities and wastewater facilities;
- the impact of geographic diversity on our exposure to unusual weather;
- the impact of conservation awareness of customers and more efficient plumbing fixtures and appliances on water usage per customer;
- our authority to carry on our business without unduly burdensome restrictions;
- the continuation of investments in strategic ventures;
- our ability to obtain fair market value for condemned assets;
- the impact of fines and penalties;
- the impact of changes in and compliance with governmental laws, regulations and policies, including those dealing with taxation, the environment, health and water quality, and public utility regulation;
- the impact of decisions of governmental and regulatory bodies, including decisions to raise or lower rates;
- the development of new services and technologies by us or our competitors;
- the availability of qualified personnel;
- the condition of our assets;
- the impact of legal proceedings;
- general economic conditions;
- acquisition-related costs and synergies;
- the sale of water and wastewater divisions;
- the impact of federal and/or state tax policies and the regulatory treatment of the effects of those policies; and
- the amount of income tax deductions for qualifying utility asset improvements and the Internal Revenue Service's ultimate acceptance of the deduction methodology.

Because forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including but not limited to:

- changes in general economic, business, credit and financial market conditions;

- changes in governmental laws, regulations and policies, including those dealing with taxation, the environment, health and water quality, and public utility regulation;
- changes to the rules or our assumptions underlying our determination of what qualifies for an income tax deduction for qualifying utility asset improvements;
- the decisions of governmental and regulatory bodies, including decisions on rate increase requests;
- our ability to file rate cases on a timely basis to minimize regulatory lag;
- abnormal weather conditions, including those that result in water use restrictions;
- changes in, or unanticipated, capital requirements;
- changes in our credit rating or the market price of our common stock;
- changes in valuation of strategic ventures;
- our ability to integrate businesses, technologies or services which we may acquire;
- our ability to manage the expansion of our business;
- our ability to treat and supply water or collect and treat wastewater;
- the extent to which we are able to develop and market new and improved services;
- the effect of the loss of major customers;
- our ability to retain the services of key personnel and to hire qualified personnel as we expand;
- labor disputes;
- increasing difficulties in obtaining insurance and increased cost of insurance;
- cost overruns relating to improvements to, or the expansion of, our operations;
- increases in the costs of goods and services;
- civil disturbance or terroristic threats or acts;
- the continuous and reliable operation of our information technology systems, including the impact of cyber security attacks or other cyber-related events;
- changes in accounting pronouncements;
- litigation and claims; and
- changes in environmental conditions, including the effects of climate change.

Given these risks and uncertainties, you should not place undue reliance on any forward-looking statements. You should read this Annual Report completely and with the understanding that our actual future results, performance and achievements may be materially different from what we expect. These forward-looking statements represent assumptions, expectations, plans, and beliefs only as of the date of this Annual Report. Except for our ongoing obligations to disclose certain information under the federal securities laws, we are not obligated, and assume no obligation, to update these forward-looking statements, even though our situation may change in the future. For further information or other factors which could affect our financial results and such forward-looking statements, see *Risk Factors*. We qualify all of our forward-looking statements by these cautionary statements.

PART I

Item 1. *Business*

The Company

Aqua America, Inc. (referred to as “Aqua America”, the “Company”, “we”, “us”, or “our”), a Pennsylvania corporation, is the holding company for regulated utilities providing water or wastewater services to what we estimate to be almost three million people in Pennsylvania, Ohio, Texas, Illinois, North Carolina, New Jersey, Indiana, and Virginia. Our largest operating subsidiary is Aqua Pennsylvania, Inc., which accounted for approximately 52% of our operating revenues and approximately 74% of our net income for 2016. As of December 31, 2016, Aqua Pennsylvania provided water or wastewater services to approximately one-half of the total number of people we serve. Aqua Pennsylvania’s service territory is located in the suburban areas in counties north and west of the City of Philadelphia and in 27 other counties in Pennsylvania. Our other regulated utility subsidiaries provide similar services in seven other states. In addition, the Company’s market-based activities are conducted through Aqua Resources Inc. and Aqua Infrastructure, LLC. Aqua

Resources provides water and wastewater service through operating and maintenance contracts with municipal authorities and other parties in close proximity to our utility companies' service territories; and offers, through a third party, water and wastewater line repair service and protection solutions to households. During 2016 we completed the sale of business units within Aqua Resources which provided liquid waste hauling and disposal services, and inspection, cleaning and repair of storm and sanitary wastewater lines. Additionally, in 2016, we decided to market for sale business units within Aqua Resources which install and test devices that prevent the contamination of potable water, for which the sale was completed in January 2017, and a business unit that repairs and performs maintenance on water and wastewater systems. These business units are reported as assets held for sale in the Company's consolidated balance sheets included in this Annual Report. Aqua Infrastructure provides non-utility raw water supply services for firms in the natural gas drilling industry.

Aqua America, which prior to its name change in 2004 was known as Philadelphia Suburban Corporation, was formed in 1968 as a holding company for its primary subsidiary, Aqua Pennsylvania, formerly known as Philadelphia Suburban Water Company. In the early 1990s, we embarked on a growth through acquisition strategy focused on water and wastewater operations. Our most significant transactions to date have been the merger with Consumers Water Company in 1999, the acquisition of the regulated water and wastewater operations of AquaSource, Inc. in 2003, the acquisition of Heater Utilities, Inc. in 2004, and the acquisition of American Water Works Company, Inc.'s regulated water and wastewater operations in Ohio in 2012. Since the early 1990s, our business strategy has been primarily directed toward the regulated water and wastewater utility industry, where we have more than quadrupled the number of regulated customers we serve, and have extended our regulated operations from southeastern Pennsylvania to include our current regulated utility operations throughout Pennsylvania and in seven other states. During 2010 through 2013, we sold our utility operations in six states, pursuant to a portfolio rationalization strategy to focus our operations in areas where we have critical mass and economic growth potential. Currently, the Company seeks to acquire businesses in the U.S. regulated sector, which includes water and wastewater utilities and other regulated utilities, and to pursue growth ventures in market-based activities, such as infrastructure opportunities that are supplementary and complementary to our regulated businesses.

In December 2014, we completed the sale of our water utility system in southwest Allen County, Indiana to the City of Fort Wayne, Indiana. The completion of this sale settled the dispute concerning the February 2008 acquisition, by eminent domain, by the City of Fort Wayne, of the northern portion of our water and wastewater utility systems.

The following table reports our operating revenues, by principal state, for the Regulated segment and Other and eliminations for the year ended December 31, 2016:

	Operating Revenues (000's)	Operating Revenues (%)
Pennsylvania	$ 423,703	51.8%
Ohio	103,364	12.6%
Texas	70,357	8.6%
Illinois	62,825	7.7%
North Carolina	53,642	6.5%
Other states (1)	86,216	10.5%
Regulated segment total	800,107	97.7%
Other and eliminations	19,768	2.3%
Consolidated	$ 819,875	100.0%

(1) Includes our operating subsidiaries in the following states: New Jersey, Indiana, and Virginia.

Information concerning revenues, net income, identifiable assets and related financial information for the Regulated segment and Other and eliminations for 2016, 2015, and 2014 is set forth in *Management's Discussion and Analysis of*

Financial Condition and Results of Operations and in Note 17 – *Segment Information* in the *Notes to Consolidated Financial Statements* which is contained in Item 8 of this Annual Report.

The following table summarizes our operating revenues, by utility customer class, for the Regulated segment and Other and eliminations for the year ended December 31, 2016:

	Operating Revenues (000's)	Operating Revenues (%)
Residential water	$ 484,901	59.1%
Commercial water	131,170	16.0%
Fire protection	30,225	3.7%
Industrial water	27,916	3.4%
Other water	32,758	4.0%
Water	706,970	86.2%
Wastewater	82,780	10.1%
Other utility	10,357	1.3%
Regulated segment total	800,107	97.6%
Other and eliminations	19,768	2.4%
Consolidated	$ 819,875	100.0%

Our utility customer base is diversified among residential water, commercial water, fire protection, industrial water, other water, wastewater customers, and other utility customers (consisting of operating contracts that are closely associated with the utility operations). Residential water and wastewater customers make up the largest component of our utility customer base, with these customers representing approximately 70% of our water and wastewater revenues. Substantially all of our water customers are metered, which allows us to measure and bill for our customers' water consumption. Water consumption per customer is affected by local weather conditions during the year, especially during late spring, summer, and early fall. In general, during these seasons, an extended period of dry weather increases consumption, while above average rainfall decreases consumption. Also, an increase in the average temperature generally causes an increase in water consumption. On occasion, abnormally dry weather in our service areas can result in governmental authorities declaring drought warnings and imposing water use restrictions in the affected areas, which could reduce water consumption. See "Business – *Water Utility Supplies, and Facilities and Wastewater Utility Facilities*" for a discussion of water use restrictions that may impact water consumption during abnormally dry weather. The geographic diversity of our utility customer base reduces the effect of our exposure to extreme or unusual weather conditions in any one area of our service territory. Water usage is also affected by changing consumption patterns by our customers, resulting from such causes as increased water conservation and the installation of water saving devices and appliances that can result in decreased water usage. It is estimated that in the event we experience a 0.50% decrease in residential water consumption it would result in a decrease in annual residential water revenue of approximately $2,400,000, and would likely be partially offset by a reduction in incremental water production expenses such as chemicals and power.

Our growth in revenues over the past five years is primarily a result of increases in water and wastewater rates and customer growth. See *Economic Regulation* for a discussion of water and wastewater rates. The increase in our utility customer base has been due to customers added through acquisitions, partnerships with developers, and organic growth (excluding dispositions) as shown below:

Year	Utility Customer Growth Rate
2016	1.6%
2015	1.9%
2014	1.3%
2013	1.3%
2012	7.2%

In 2016, our customer count increased by 14,399 customers, primarily due to organic growth and utility systems that we acquired, offset by the loss of customers due to dispositions. Overall, for the five-year period of 2012 through 2016, our utility customer base, adjusted to exclude customers associated with utility system dispositions, increased at an annual compound rate of 2.5%. During the five-year period ended December 31, 2016, our utility customer base including customers associated with utility system acquisitions and dispositions increased from 966,136 at January 1, 2012 to 972,265 at December 31, 2016. This five-year period includes the impact of the condemnation of our Fort Wayne, IN system in 2014, which resulted in the loss of approximately 13,000 connections.

Acquisitions and Other Growth Ventures

According to the U.S. Environmental Protection Agency ("EPA"), approximately 85% of the U.S. population obtains its water from community water systems, and 15% of the U.S. population obtains its water from private wells. With approximately 53,000 community water systems in the U.S. (82% of which serve less than 3,300 customers), the water industry is the most fragmented of the major utility industries (telephone, natural gas, electric, water and wastewater). The majority of these community water systems are government-owned, and the balance of the systems are privately-owned (or investor-owned). The nation's water systems range in size from large government-owned systems, such as the New York City water system which serves approximately 8.5 million people, to small systems, where a few customers share a common well. In the states where we operate regulated utilities, we believe there are approximately 14,500 community water systems of widely-varying size, with the majority of the population being served by government-owned water systems.

Although not as fragmented as the water industry, the wastewater industry in the U.S. also presents opportunities for consolidation. According to the EPA's most recent survey of wastewater treatment facilities (which includes both government-owned and privately-owned facilities) in 2012, there are approximately 15,000 such facilities in the nation serving approximately 76% of the U.S. population. The remaining population represents individual homeowners with their own treatment facilities; for example, community on-lot disposal systems and septic tank systems. A majority of wastewater facilities are government-owned rather than privately-owned. The EPA's survey also indicated that there are approximately 4,000 wastewater facilities in operation in the states where we operate regulated utilities.

Because of the fragmented nature of the water and wastewater utility industries, we believe there are many potential water and wastewater system acquisition candidates throughout the U.S. We believe the factors driving consolidation of these systems are:

- the benefits of economies of scale;
- the increasing cost and complexity of environmental regulations;
- the need for substantial capital investment;
- the need for technological and managerial expertise;
- the desire to improve water quality and service;

- limited access to cost-effective financing;
- the monetizing of public assets to support, in some cases, the declining financial condition of municipalities; and
- the use of system sale proceeds by a municipality to accomplish other public purposes.

We are actively exploring opportunities to expand our utility operations through acquisitions or other growth ventures. During the five-year period ended December 31, 2016, we expanded our utility operations by completing 84 acquisitions or other growth ventures.

We believe that acquisitions will continue to be an important source of customer growth for us. We intend to continue to pursue acquisitions of government-owned and privately-owned water and wastewater systems that provide services in areas near our existing service territories or in new service areas. We engage in continuing activities with respect to potential acquisitions, including calling on prospective sellers, performing analyses and investigations of acquisition candidates, making preliminary acquisition proposals, and negotiating the terms of potential acquisitions. Further, we are also seeking other potential business opportunities, including but not limited to partnering with public and private utilities to invest in infrastructure improvements, and growing our market-based activities by acquiring businesses that provide water and wastewater management services, other utility services and investing in infrastructure projects.

Water Utility Supplies and Facilities and Wastewater Utility Facilities

Our water utility operations obtain their water supplies from surface water sources, underground aquifers, and water purchased from other water suppliers. Our water supplies are primarily self-supplied and processed at twenty surface water treatment plants located in four states, and numerous well stations located in all of the states in which we conduct business. Approximately 8% of our water supplies are provided through water purchased from other water suppliers. It is our policy to obtain and maintain the permits necessary to obtain the water we distribute.

We believe that the capacities of our sources of supply, and our water treatment, pumping and distribution facilities, are generally sufficient to meet the present requirements of our customers under normal conditions. We plan system improvements and additions to capacity in response to normal replacement and renewal needs, changing regulatory standards, changing patterns of consumption, and increased demand from customer growth. The various state utility commissions have generally recognized the operating and capital costs associated with these improvements in setting water and wastewater rates.

On occasion, drought warnings and water use restrictions are issued by governmental authorities for portions of our service territories in response to extended periods of dry weather conditions. The timing and duration of the warnings and restrictions can have an impact on our water revenues and net income. In general, water consumption in the summer months is more affected by drought warnings and restrictions because discretionary and recreational use of water is at its highest during the summer months. At other times of the year, warnings and restrictions generally have less of an effect on water consumption. Currently, portions of our Pennsylvania (four counties), New Jersey, and Texas service areas are under drought warnings. The entire Pennsylvania and New Jersey service areas are under drought watch. Portions of our northern and central Texas service areas have conservation water restrictions. Drought warnings and watches result in the public being asked to voluntarily reduce water consumption.

We believe that our wastewater treatment facilities are generally adequate to meet the present requirements of our customers under normal conditions. Additionally, we own several wastewater collection systems that convey the wastewater to a municipally-owned facility for treatment. Changes in regulatory requirements can be reflected in revised permit limits and conditions when permits are renewed, typically on a five-year cycle, or when treatment capacity is expanded. Capital improvements are planned and budgeted to meet normal replacement and renewal needs, anticipated changes in regulations, needs for increased capacity related to projected growth, and to reduce inflow and infiltration to collection systems. The various state utility commissions have generally recognized the operating and capital costs associated with these improvements in setting wastewater rates for current and new customers. It is our policy to obtain and maintain the permits necessary for the treatment of the wastewater that we return to the environment.

Economic Regulation

Most of our water and wastewater utility operations are subject to regulation by their respective state utility commissions, which have broad administrative power and authority to regulate billing rates, determine franchise areas and conditions of service, approve acquisitions and authorize the issuance of securities. The utility commissions also establish uniform systems of accounts and approve the terms of contracts with affiliates and customers, business combinations with other utility systems, and loans and other financings. The policies of the utility commissions often differ from state to state, and may change over time. A small number of our operations are subject to rate regulation by county or city governments. The profitability of our utility operations is influenced to a great extent by the timeliness and adequacy of rate allowances we are granted by the respective utility commissions or authorities in the various states in which we operate.

Rate Case Management Capability – We maintain a rate case management capability, the objective of which is to provide that the tariffs of our utility operations reflect, to the extent practicable, the timely recovery of increases in costs of operations, capital expenditures, interest expense, taxes, energy, materials, and compliance with environmental regulations. We file rate increase requests to recover and earn a fair return on the infrastructure investments that we make in improving or replacing our facilities and to recover expenses. In the states in which we operate, we are primarily subject to economic regulation by the following state utility commissions:

State	Utility Commission
Pennsylvania	Pennsylvania Public Utility Commission
Ohio	The Public Utilities Commission of Ohio
Texas	Texas Public Utility Commission
Illinois	Illinois Commerce Commission
North Carolina	North Carolina Utilities Commission
New Jersey	New Jersey Board of Public Utilities
Indiana	Indiana Utility Regulatory Commission
Virginia	Virginia State Corporation Commission

Our water and wastewater operations are comprised of 53 rate divisions, each of which requires a separate rate filing for the evaluation of the cost of service, including the recovery of investments, in connection with the establishment of rates for that rate division. When feasible and beneficial to our utility customers, we will seek approval from the applicable state regulatory commission to consolidate rate divisions to achieve a more even distribution of costs over a larger customer base. All of the states in which we operate permit us to file a revenue requirement for some form of consolidated rates for all, or some of the rate divisions in that state.

In Virginia, we may seek authorization to bill our utility customers in accordance with a rate filing that is pending before the respective regulatory commission. As of December 31, 2016, we have no billings under interim rate arrangements for rate case filings in progress. Furthermore, some utility commissions authorize the use of expense deferrals and amortization in order to provide for an impact on our operating income by an amount that approximates the requested amount in a rate request. In these states the additional revenue billed and collected prior to the final regulatory commission ruling is subject to refund to customers based on the outcome of the ruling. The revenue recognized and the expenses deferred by us reflect an estimate as to the final outcome of the ruling. If the request is denied completely or in part, we could be required to refund to customers some or all of the revenue billed to date, and write-off some or all of the deferred expenses.

Revenue Surcharges – Six states in which we operate water utilities, and five states in which we operate wastewater utilities, permit us to add a surcharge to water or wastewater bills to offset the additional depreciation and capital costs associated with capital expenditures related to replacing and rehabilitating infrastructure systems. Without this surcharge, a water and wastewater utility absorbs all of the depreciation and capital costs of these projects between base rate increases. The gap between the time that a capital project is completed and the recovery of its costs in rates is known as regulatory lag. This surcharge is intended to substantially reduce regulatory lag, which often acted as a disincentive to water and wastewater utilities to rehabilitate their infrastructure. In addition, our subsidiaries in some states use a surcharge or credit on their bills to reflect

changes in costs, such as changes in state tax rates, other taxes and purchased water costs, until such time as the new cost levels are incorporated into base rates.

Currently, with the exception of New Jersey, which allows for an infrastructure rehabilitation surcharge for water utilities, Pennsylvania, Illinois, Ohio, Indiana, and North Carolina allow for the use of an infrastructure rehabilitation surcharge for both water and wastewater utility systems. The infrastructure rehabilitation surcharge typically adjusts periodically based on additional qualified capital expenditures completed or anticipated in a future period, and is capped at a percentage of base rates, generally at 5% to 12.75%, and is reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a regulatory benchmark. This surcharge provided revenues of $7,379,000 in 2016, $3,261,000 in 2015, and $4,598,000 in 2014.

Income Tax Accounting Change – In December 2012, Aqua Pennsylvania adopted an income tax accounting change, implemented on Aqua America's 2012 federal income tax return, which was filed in September 2013. This accounting change allows a tax deduction for qualifying utility asset improvements that were formerly capitalized for tax purposes, and was implemented in response to a June 2012 rate order issued by the Pennsylvania Public Utility Commission. The Pennsylvania rate order provides for the flow-through of income tax benefits which results in a reduction in current income tax expense as a result of the recognition of income tax benefits resulting from the accounting change. This tax accounting change and its treatment under the Pennsylvania rate order financially offset the impact of the water infrastructure rehabilitation surcharge suspension. During 2013, our Ohio and North Carolina operating divisions implemented this change. These divisions currently do not employ a method of accounting that provides for a reduction in current income tax expense, and as such this change had no impact on our effective income tax rate.

Competition

In general, we believe that Aqua America and its subsidiaries have valid authority, free from unduly burdensome restrictions, to enable us to carry on our business as presently conducted in the franchised or contracted areas we now serve. The rights to provide water or wastewater service to a particular franchised service territory are generally non-exclusive, although the applicable utility commissions usually allow only one regulated utility to provide service to a given area. In some instances, another water utility provides service to a separate area within the same political subdivision served by one of our subsidiaries. Therefore, as a regulated utility, there is little or no competition for the daily water and wastewater service we provide to our customers. Water and wastewater utilities may compete for the acquisition of other water and wastewater utilities or for acquiring new customers in new service territories. Competition for these acquisitions generally comes from nearby utilities, either investor-owned or municipal-owned, and sometimes from strategic or financial purchasers seeking to enter or expand in the water and wastewater industry. We compete for new service territories and the acquisition of other utilities on the following bases:

- economic value;
- economies of scale;
- our ability to provide quality water and wastewater service;
- our existing infrastructure network;
- our ability to perform infrastructure improvements;
- our ability to comply with environmental, health, and safety regulations, our technical, regulatory, and operational expertise;
- our ability to access capital markets; and
- our cost of capital.

The addition of new service territories and the acquisition of other utilities by regulated utilities such as us are generally subject to review and approval by the applicable state utility commissions.

In a very few number of instances, in one of our southern states, where there are municipally-owned water or wastewater systems near our operating divisions, the municipally-owned system may either have water distribution or wastewater collection mains that are located adjacent to our division's mains or may construct new mains that parallel our mains. In

these circumstances, on occasion, the municipally-owned system may attempt to voluntarily offer service to customers who are connected to our mains, resulting in our mains becoming surplus or underutilized without compensation.

In the states where our subsidiaries operate, it is possible that portions of our subsidiaries' operations could be acquired by municipal governments by one or more of the following methods:

- eminent domain;
- the right of purchase given or reserved by a municipality or political subdivision when the original franchise was granted; and
- the right of purchase given or reserved under the law of the state in which the subsidiary was incorporated or from which it received its permit.

The price to be paid upon such an acquisition by the municipal government is usually determined in accordance with applicable law under eminent domain. In other instances, the price may be negotiated, fixed by appraisers selected by the parties or computed in accordance with a formula prescribed in the law of the state or in the particular franchise or charter. We believe that our operating subsidiaries will be entitled to fair market value for any assets that are condemned, and we believe the fair market value will be in excess of the book value for such assets.

Despite maintaining a program to monitor condemnation interests and activities that may affect us over time, one of our primary strategies continues to be to acquire additional water and wastewater systems, to maintain our existing systems where there is a business or a strategic benefit, and to actively oppose unilateral efforts by municipal governments to acquire any of our operations, particularly for less than the fair market value of our operations or where the municipal government seeks to acquire more than it is entitled to under the applicable law or agreement. On occasion, we may voluntarily agree to sell systems or portions of systems in order to help focus our efforts in areas where we have more critical mass and economies of scale or for other strategic reasons.

Environmental, Health and Safety Regulation

Provision of water and wastewater services is subject to regulation under the federal Safe Drinking Water Act, the Clean Water Act, and related state laws, and under federal and state regulations issued under these laws. These laws and regulations establish criteria and standards for drinking water and for wastewater discharges. In addition, we are subject to federal and state laws and other regulations relating to solid waste disposal, dam safety and other aspects of our operations. Capital expenditures and operating costs required as a result of water quality standards and environmental requirements have been traditionally recognized by state utility commissions as appropriate for inclusion in establishing rates.

From time to time, Aqua America has acquired, and may acquire, systems that have environmental compliance issues. Environmental compliance issues also arise in the course of normal operations or as a result of regulatory changes. Aqua America attempts to align capital budgeting and expenditures to address these issues in due course. We believe that the capital expenditures required to address outstanding environmental compliance issues have been budgeted in our capital program and represent approximately $47,100,000, or approximately 2% of our expected total capital expenditures over the next five years. We are parties to agreements with regulatory agencies in Pennsylvania, Texas, and Indiana under which we have committed to make improvements for environmental compliance. These agreements are intended to provide the regulators with assurance that problems covered by these agreements will be addressed, and the agreements generally provide protection from fines, penalties and other actions while corrective measures are being implemented. We are actively working directly with state environmental officials in Pennsylvania, Texas, and Indiana to implement or amend these agreements as necessary.

Safe Drinking Water Act - The Safe Drinking Water Act establishes criteria and procedures for the EPA to develop national quality standards for drinking water. Regulations issued pursuant to the Safe Drinking Water Act set standards regarding the amount of microbial and chemical contaminants and radionuclides in drinking water. Current requirements under the Safe Drinking Water Act are not expected to have a material impact on our business, financial condition, or

results of operations as we have made and are making investments to meet existing water quality standards. We may, in the future, be required to change our method of treating drinking water at some sources of supply and make additional capital investments if additional regulations become effective.

Clean Water Act - The Clean Water Act regulates discharges from drinking water and wastewater treatment facilities into lakes, rivers, streams, and groundwater. It is our policy to obtain and maintain all required permits and approvals for the discharges from our water and wastewater facilities, and to comply with all conditions of those permits and other regulatory requirements. A program is in place to monitor facilities for compliance with permitting, monitoring and reporting for wastewater discharges. From time to time, discharge violations may occur which may result in fines. These fines and penalties, if any, are not expected to have a material impact on our business, financial condition, or results of operations. We are also parties to agreements with regulatory agencies in several states where we operate while improvements are being made to address wastewater discharge issues.

Solid Waste Disposal - The handling and disposal of waste generated from water and wastewater treatment facilities is governed by federal and state laws and regulations. A program is in place to monitor our facilities for compliance with regulatory requirements, and we are not aware of any significant environmental remediation costs necessary from our handling and disposal of waste material from our water and wastewater operations.

Dam Safety - Our subsidiaries own thirty dams, of which fifteen are classified as high hazard dams that are subject to the requirements of the federal and state regulations related to dam safety, which undergo regular inspections and an annual engineering inspection. After a thorough review and inspection of our dams by professional outside engineering firms, we believe that all fifteen dams are structurally sound and well-maintained. These inspections provide recommendations for ongoing rehabilitation which we include in our capital improvement program.

We performed studies of our dams that identified three dams in Pennsylvania and two dams in Ohio requiring capital improvements resulting from the adoption by state regulatory agencies of revised formulas for calculating the magnitude of a possible maximum flood event. The most significant capital improvement remaining to be performed is on one dam in Pennsylvania at a total estimated cost of $13,700,000. Design for this dam commenced in 2013 and construction is expected to be completed in 2021.

Safety Standards - Our facilities and operations may be subject to inspections by representatives of the Occupational Safety and Health Administration from time to time. We maintain safety policies and procedures to comply with the Occupational Safety and Health Administration's rules and regulations, but violations may occur from time to time, which may result in fines and penalties, which are not expected to have a material impact on our business, financial condition, or results of operations. We endeavor to correct such violations promptly when they come to our attention.

Security

We maintain security measures at our facilities, and collaborate with federal, state and local authorities and industry trade associations regarding information on possible threats and security measures for water and wastewater utility operations. The costs incurred are expected to be recoverable in water and wastewater rates and are not expected to have a material impact on our business, financial condition, or results of operations.

We also maintain cyber security protection measures with respect to our information technology, including our customer data, and, in some cases, the monitoring and operation of our treatment, storage and pumping facilities.

Employee Relations

As of December 31, 2016, we employed a total of 1,551 full-time employees. Our subsidiaries are parties to 15 labor agreements with labor unions covering 580 employees. The labor agreements expire at various times between April 2017 and May 2021.

Available Information

We file annual, quarterly, current reports, proxy statements, and other information with the Securities and Exchange Commission ("SEC"). You may read and copy any document we file with the SEC at the SEC's public reference room at 100 F Street, NE, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. You may also obtain our SEC filings from the SEC's web site at www.sec.gov.

Our internet web site address is www.aquaamerica.com. We make available free of charge through our web site's *Investor Relations* page all of our filings with the SEC, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and other information. These reports and information are available as soon as reasonably practicable after such material is electronically filed with the SEC.

In addition, you may request a copy of the foregoing filings, at no cost by writing or telephoning us at the following address or telephone number:

Investor Relations Department
Aqua America, Inc.
762 W. Lancaster Avenue
Bryn Mawr, PA 19010-3489
Telephone: 610-527-8000

Our Board of Directors has various committees including an audit committee, an executive compensation committee, a corporate governance committee, and a risk mitigation and investment policy committee. Each of these committees has a formal charter. We also have Corporate Governance Guidelines and a Code of Ethical Business Conduct. Copies of these charters, guidelines, and codes can be obtained free of charge from our *Investor Relations* page on our web site, www.aquaamerica.com. In the event we change or waive any portion of the Code of Ethical Business Conduct that applies to any of our directors, executive officers, or senior financial officers, we will post that information on our web site.

The references to our web site and the SEC's web site are intended to be inactive textual references only, and the contents of those web sites are not incorporated by reference herein and should not be considered part of this or any other report that we file with or furnish to the SEC.

Item 1A. *Risk Factors*

In addition to the other information included in this Annual Report, the following factors should be considered in evaluating our business and future prospects. Any of the following risks, either alone or taken together, could materially harm our business, financial condition, and results of operations. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, our business, financial condition, and results of operations could be materially harmed.

Contamination of our water supply, including water provided to our customers, may result in disruption in our services, additional costs and litigation which could harm our business, financial condition, and results of operations.

Our water supplies, including water provided to our customers, are subject to possible contamination, including from:

- naturally occurring compounds or man-made substances;
- chemicals and other hazardous materials;
- lead and other materials;
- pharmaceuticals and personal care products; and
- possible deliberate or terrorist attacks.

Depending on the nature of the water contamination, we may have to interrupt the use of that water supply until we are able to substitute, where feasible, the flow of water from an uncontaminated water source, including if practicable, the purchase of water from other suppliers, or continue the water supply under restrictions on use for drinking or broader restrictions against all use except for basic sanitation and essential fire protection. We may incur significant costs, including, but not limited to, costs for water quality testing and monitoring, treatment of the contaminated source through modification of our current treatment facilities or development of new treatment methods, or the purchase of alternative water supplies. In addition, the costs we could incur to decontaminate a water source or our water distribution system and dispose of waste could also be significant. The costs resulting from the contamination may not be recoverable in rates we charge our customer, or may not be recoverable in a timely manner. If we are unable to adequately treat the contaminated water supply or substitute a water supply from an uncontaminated water source in a timely or cost-effective manner, there may be an adverse effect on our business, financial condition, and results of operations. We could also be subject to:

- claims for consequences arising out of human exposure to contamination and/or hazardous substances in our water supplies, including toxic torts;
- claims for other environmental damage;
- claims for customers' business interruption as a result of an interruption in water service;
- claims for breach of contract;
- criminal enforcement actions; or
- other claims.

We may incur costs to defend our position and/or incur reputational damage even if we are not liable for consequences arising out of human exposure to contamination and/or hazardous substances in our water supplies or other environmental damage. Our insurance policies may not be sufficient to cover the costs of these claims, and losses incurred may make it difficult for us to secure insurance in the future at acceptable rates. Such claims or actions could harm our business, financial condition, and results of operations.

The rates we charge our customers are subject to regulation. If we are unable to obtain government approval of our requests for rate increases or if approved rate increases are untimely or inadequate to recover and earn a return on our capital investments, to recover expenses or taxes, or to take into account changes in water usage, our profitability may suffer.

The rates we charge our customers are subject to approval by utility commissions in the states in which we operate. We file rate increase requests, from time to time, to recover our investments in utility plant and expenses. Our ability to maintain and meet our financial objectives is dependent upon the recovery of, and return on, our capital investments and expenses through the rates we charge our customers. Once a rate increase petition is filed with a utility commission, the ensuing administrative and hearing process may be lengthy and costly, and our costs may not always be fully recoverable. The timing of our rate increase requests are therefore partially dependent upon the estimated cost of the administrative process in relation to the investments and expenses that we hope to recover through the rate increase. In addition, the amount or frequency of rate increases may be decreased or lengthened as a result of many factors including changes in regulatory oversight in the states in which we operate water and wastewater utilities and income tax laws, including regulations regarding tax-basis depreciation as it applies to our capital expenditures or qualifying utility asset improvements. We can provide no assurances that any future rate increase request will be approved by the appropriate utility commission; and, if approved, we cannot guarantee that these rate increases will be granted in a timely or sufficient manner.

In Virginia, we may seek authorization to bill our utility customers in accordance with a rate filing that is pending before the respective regulatory commission. Furthermore, some utility commissions authorize the use of expense deferrals and amortization in order to provide for an impact on our operating income by an amount that approximates the requested amount in a rate request. The additional revenue billed and collected prior to the final ruling is subject to refund to customers based on the outcome of the ruling. The revenue recognized and the expenses deferred by us reflect an estimate as to the final outcome of the ruling. If the request is denied completely or in part, we could be required to refund to customers some or all of the revenue billed to date, and write-off some or all of the deferred expenses.

Our business requires significant capital expenditures that are partially dependent on our ability to secure appropriate funding. Disruptions in the capital markets may limit our access to capital. If we are unable to obtain sufficient capital, or if the cost of borrowing increases, it may harm our business, financial condition, results of operations, and our ability to pay dividends.

Our business is capital intensive. In addition to the capital required to fund customer growth through our acquisition strategy, on an annual basis, we spend significant sums for additions to or replacement of property, plant and equipment. We obtain funds for our capital expenditures from operations, contributions and advances by developers and others, debt issuances, and equity issuances. We have paid dividends consecutively for 72 years and our Board of Directors recognizes the value that our common shareholders place on both our historical payment record and on our future dividend payments. Our ability to maintain and meet our financial objectives is dependent upon the availability of adequate capital, and we may not be able to access the capital markets on favorable terms or at all. If in the future, our credit facilities are not renewed or our short-term borrowings are called for repayment, we would need to seek alternative financing sources; however, there can be no assurance that these alternative financing sources would be available on terms acceptable to us. In the event we are unable to obtain sufficient capital, we may need to take steps to conserve cash by reducing our capital expenditures or dividend payments and our ability to pursue acquisitions may be limited. The reduction in capital expenditures may result in reduced potential earnings growth, affect our ability to meet environmental laws and regulations, and limit our ability to improve or expand our utility systems to the level we believe appropriate. There is no guarantee that we will be able to obtain sufficient capital in the future on reasonable terms and conditions for expansion, construction and maintenance. In addition, delays in completing major capital projects could delay the recovery of the capital expenditures associated with such projects through rates. If the cost of borrowing increases, we might not be able to recover increases in our cost of capital through rates. The inability to recover higher borrowing costs through rates, or the regulatory lag associated with the time that it takes to begin recovery, may harm our business, financial condition, and results of operations.

Our inability to comply with debt covenants under our credit facilities could result in prepayment obligations.

We are obligated to comply with debt covenants under some of our loan and debt agreements. Failure to comply with covenants under our credit facilities could result in an event of default, which if not cured or waived, could result in us being required to repay or finance these borrowings before their due date, limit future borrowings, cause us to default on other obligations, and increase borrowing costs. If we are forced to repay or refinance (on less favorable terms) these borrowings, our business, financial condition, and results of operations could be harmed by reduced access to capital and increased costs and rates.

One of the important elements of our growth strategy is the acquisition of water and wastewater utility systems. Any future acquisitions we decide to undertake may involve risks. Further, competition for acquisition opportunities from other regulated utilities, governmental entities, and strategic and financial buyers may hinder our ability to grow our business.

One important element of our growth strategy is the acquisition and integration of water and wastewater utility systems in order to broaden our service areas. We will not be able to acquire other businesses if we cannot identify suitable acquisition opportunities or reach mutually agreeable terms with acquisition candidates. It is our intent, when practical, to integrate any businesses we acquire with our existing operations. The negotiation of potential acquisitions as well as the integration of acquired businesses could require us to incur significant costs and cause diversion of our management's time and resources. Future acquisitions by us could result in:

- dilutive issuances of our equity securities;
- incurrence of debt, contingent liabilities, and environmental liabilities;
- unanticipated capital expenditures;
- failure to maintain effective internal control over financial reporting;
- recording goodwill and other intangible assets for which we may never realize their full value and may result in an asset impairment that may negatively affect our results of operations;

- fluctuations in quarterly results;
- other acquisition related expenses; and
- exposure to unknown or unexpected risks and liabilities.

Some or all of these items could harm our business and our ability to finance our business and to comply with regulatory requirements. The businesses we acquire in the future may not achieve sales and profitability that would justify our investment, and any difficulties we encounter in the integration process, including in the integration of processes necessary for internal control and financial reporting, could interfere with our operations, reduce our operating margins and harm our internal controls.

We compete with governmental entities, other regulated utilities, and strategic and financial buyers, for acquisition opportunities. As consolidation becomes more prevalent in the utility industry and competition for acquisitions increases, the prices for suitable acquisition candidates may increase to unacceptable levels and limit our ability to grow through acquisitions. In addition, our competitors may impede our growth by purchasing utilities near our existing operations, thereby preventing us from acquiring them. Governmental entities or environmental / social activist groups have challenged, and may in the future challenge our efforts to acquire new service territories, particularly from municipalities or municipal authorities. Higher purchase prices and resulting rates may limit our ability to invest additional capital for system maintenance and upgrades in an optimal manner. Our growth could be hindered if we are not able to compete effectively for new companies and/or service territories with other companies or strategic and financial buyers that have lower costs of operations or capital, or that submit more attractive bids. Any of these risks may harm our business, financial condition, and results of operations.

Our facilities could be the target of a possible terrorist or other deliberate attack which could harm our business, financial condition and results of operations.

In addition to the potential contamination of our water supply as described in a separate risk factor herein, we maintain security measures at our facilities and have heightened employee and public safety official awareness of potential threats to our water systems. We have and will continue to bear increases in costs for security precautions to protect our facilities, operations, and supplies, most of which have been recoverable under state regulatory policies. While the costs of increases in security, including capital expenditures, may be significant, we expect these costs to continue to be recoverable in water and wastewater rates. Despite our security measures, we may not be in a position to control the outcome of terrorist events, or other attacks on our water systems, should they occur. Such an event could harm our business, financial condition, and results of operations.

The failure of, or the requirement to repair, upgrade or dismantle any of our dams or reservoirs may harm our business, financial condition, and results of operations.

Several of our water systems include impounding dams and reservoirs of various sizes. Although we believe our dams are structurally sound and well-maintained, the failure of a dam could result in significant downstream damage and could result in claims for property damage or for injuries or fatalities. We periodically inspect our dams and purchase liability insurance to cover such risks, but depending on the nature of the downstream damage and cause of the failure, the policy limits of insurance coverage may not be sufficient, and losses incurred may make it difficult for us to secure insurance in the future at acceptable rates. A dam failure could also result in damage to, or disruption of, our water treatment and pumping facilities that are often located downstream from our dams and reservoirs. Significant damage to these facilities, or a significant decline in the storage of the raw water impoundment, could affect our ability to provide water to our customers until the facilities and a sufficient raw water impoundment can be restored. The estimated costs to maintain our dams are included in our capital budget projections and, although such costs to date have been recoverable in rates, there can be no assurance that rate increases will be granted in a timely or sufficient manner to recover such costs in the future, if at all.

Any failure of our water and wastewater treatment plants, network of water and wastewater pipes, or water reservoirs could result in damages that may harm our business, financial condition, and results of operations.

Our operating subsidiaries treat water and wastewater, distribute water and collect wastewater through an extensive network of pipes, and store water in reservoirs. A failure of a major treatment plant, pipe, or reservoir could result in claims for injuries or property damage. The failure of a major treatment plant, pipe, or reservoir may also result in the need to shut down some facilities or parts of our network in order to conduct repairs. Such failures and shutdowns may limit our ability to supply water in sufficient quality and quantities to our customers or collect and treat wastewater in accordance with standards prescribed by governmental regulators, including state utility commissions, and may harm our business, financial condition, and results of operations. Any business interruption or other losses might not be covered by insurance policies or be recoverable in rates, and such losses may make it difficult for us to secure insurance in the future at acceptable rates.

We are increasingly dependent on the continuous and reliable operation of our information technology systems, and a disruption of these systems, resulting from cyber security attacks or other cyber-related events, could harm our business.

We rely on our information technology systems in connection with the operation of our business, especially with respect to customer service and billing, accounting and, in some cases, the monitoring and operation of our treatment, storage and pumping facilities. In addition, we rely on our systems to track our utility assets and to manage maintenance and construction projects, materials and supplies, and our human resource functions. A loss of these systems, or major problems with the operation of these systems, could harm our business, financial condition, and results of operations. Our information technology systems may be vulnerable to damage or interruption from the following types of cyber security attacks or other cyber-related events:

- power loss, computer systems failures, and internet, telecommunications or data network failures;
- operator negligence or improper operation by, or supervision of, employees;
- physical and electronic loss of data;
- computer viruses, cyber security attacks, intentional security breaches, hacking, denial of service actions, misappropriation of data and similar events;
- difficulties in the implementation of upgrades or modification to our information technology systems; and
- hurricanes, fires, floods, earthquakes and other natural disasters.

Although we do not believe that our systems are at a materially greater risk of cyber security attacks than other similar organizations, our information technology systems may be vulnerable to damage or interruption from the types of cyber security attacks or other events listed above or other similar actions, and such incidents may go undetected for a period of time. Such cyber security attacks or other events may result in:

- the loss or compromise of customer, financial, employee, or operational data;
- disruption of billing, collections or normal field service activities;
- disruption of electronic monitoring and control of operational systems; and
- delays in financial reporting and other normal management functions.

Possible impacts associated with a cyber security attack or other events may include: remediation costs related to lost, stolen, or compromised data; repairs to data processing systems; increased cyber security protection costs; adverse effects on our compliance with regulatory and environmental laws and regulation, including standards for drinking water; litigation; and reputational damage. We maintain insurance to help defray costs associated with cyber security attacks or other events, but we cannot provide assurance that such insurance will provide coverage for any particular type of incident or event or that such insurance will be adequate, and losses incurred may make it difficult for us to secure insurance in the future at acceptable rates.

Our business is impacted by weather conditions and is subject to seasonal fluctuations, which could harm demand for our water service and our revenues and earnings.

Demand for our water during the warmer months is generally greater than during cooler months due primarily to additional requirements for water in connection with irrigation systems, swimming pools, cooling systems, and other outside water use. Throughout the year, and particularly during typically warmer months, demand will vary with temperature, rainfall levels and rainfall frequency. In the event that temperatures during the typically warmer months are cooler than normal, if there is more rainfall than normal, or rainfall is more frequent than normal, the demand for our water may decrease and harm our business, financial condition, and results of operations.

Decreased residential customer water consumption as a result of water conservation efforts may harm demand for our water service and may reduce our revenues and earnings.

There has been a general decline in water usage per residential customer as a result of an increase in conservation awareness, and the impact of an increased use of more efficient plumbing fixtures and appliances. These gradual, long-term changes are normally taken into account by the utility commissions in setting rates, whereas short-term changes in water usage, if significant, may not be fully reflected in the rates we charge. We are dependent upon the revenue generated from rates charged to our residential customers for the volume of water used. If we are unable to obtain future rate increases to offset decreased residential customer water consumption to cover our investments, expenses, and return for which we initially sought the rate increase, our business, financial condition, and results of operations may be harmed.

Drought conditions and government imposed water use restrictions may impact our ability to serve our current and future customers, and may impact our customers' use of our water, which may harm our business, financial condition, and results of operations.

We depend on an adequate water supply to meet the present and future demands of our customers. Drought conditions could interfere with our sources of water supply and could harm our ability to supply water in sufficient quantities to our existing and future customers. An interruption in our water supply could harm our business, financial condition, and results of operations. Moreover, governmental restrictions on water usage during drought conditions may result in a decreased demand for our water, even if our water supplies are sufficient to serve our customers during these drought conditions, which may harm our business, financial condition, and results of operations.

We employ a portfolio rationalization strategy to focus our operations in areas where we have critical mass and economic growth potential and to divest operations where limited customer growth opportunities exist or where we are unable to achieve favorable operating results or a return on equity that we consider acceptable. Dispositions we decide to undertake may involve risks which could harm our business, operating results, and financial condition.

In the event we determine a division, utility system or business should be sold, we may be unable to reach terms that are agreeable to us or find a suitable buyer. If the business is part of our regulated operations, we may face additional challenges in obtaining regulatory approval for the disposition, and the regulatory approval obtained may include restrictive conditions. We may be required to continue to hold or assume residual liabilities with respect to the business sold. The negotiation of potential dispositions as well as the efforts to divest the acquired business could require us to incur significant costs and cause diversion of our management’s time and resources. Any of these risks may harm our business, financial condition, and results of operations.

Our operations are geographically concentrated in Pennsylvania

Although we operate water and wastewater facilities in a number of states, our operations are concentrated in Pennsylvania. As a result, our financial results are largely subject to political, water supply, labor, utility cost and regulatory risks, economic conditions, natural disasters and other risks affecting Pennsylvania.

General economic conditions may affect our financial condition and results of operations.

A general economic downturn may lead to a number of impacts on our business and may affect our financial condition and results of operations. Such impacts may include:

- a reduction in discretionary and recreational water use by our residential water customers, particularly during the summer months when such discretionary usage is normally at its highest;
- a decline in usage by industrial and commercial customers as a result of decreased business activity;
- an increased incidence of customers' inability to pay or delays in paying their utility bills, or an increase in customer bankruptcies, which may lead to higher bad debt expense and reduced cash flow;
- a lower natural customer growth rate due to a decline in new housing starts; and
- a decline in the number of active customers due to housing vacancies.

General economic turmoil may also lead to an investment market downturn, which may result in our pension and other post-retirement plans' asset market values suffering a decline and significant volatility. A decline in our plans' asset market values could increase our required cash contributions to the plans and expense in subsequent years.

Our water and wastewater systems may be subject to condemnations or other methods of taking by governmental entities.

In the states where our subsidiaries operate, it is possible that portions of our subsidiaries' operations could be acquired by municipal governments by one or more of the following methods:

- eminent domain;
- the right of purchase given or reserved by a municipality or political subdivision when the original franchise was granted; and
- the right of purchase given or reserved under the law of the state in which the subsidiary was incorporated or from which it received its permit.

The price to be paid upon such an acquisition by the municipal government is usually determined in accordance with applicable law under eminent domain. In other instances, the price may be negotiated, fixed by appraisers selected by the parties or computed in accordance with a formula prescribed in the law of the state or in the particular franchise or charter. We believe that our operating subsidiaries will be entitled to receive fair market value for any assets that are condemned. However, there is no assurance that the fair market value received for assets condemned will be in excess of book value.

In a very few number of instances, in one of our southern states where there are municipally-owned water or wastewater systems near our operating divisions, the municipally-owned system may either have water distribution or wastewater collection mains that are located adjacent to our division's mains or may construct new mains that parallel our mains. In these circumstances, on occasion, the municipally-owned system may attempt to offer service to customers who are connected to our mains, resulting in our mains becoming surplus or underutilized without compensation.

The final determination of our income tax liability may be materially different from our income tax provision.

Significant judgment is required in determining our provision for income taxes. Our calculation of the provision for income taxes is subject to our interpretation of applicable business tax laws in the jurisdictions in which we file. In addition, our income tax returns are subject to periodic examination by the Internal Revenue Service and other taxing authorities. In December 2012, Aqua Pennsylvania changed its tax method of accounting to permit the expensing of qualifying utility asset improvement costs that were previously being capitalized and depreciated for tax purposes. Subsequently, the Company's other regulated subsidiaries similarly changed their tax method of accounting. Our determination of what qualifies as a capital cost versus a tax deduction for utility asset improvements is subject to subsequent adjustment and may impact the income tax benefits that have been recognized. Although we believe our income tax estimates, including any tax reserves for uncertain tax positions or valuation allowances on deferred tax assets are appropriate, there is no assurance that the final determination of our income tax liability will not be materially different; either higher or lower, from what is reflected in our

income tax provision. In the event we are assessed additional income taxes, our business, financial condition, and results of operations could be harmed.

Federal and state environmental laws and regulations impose substantial compliance requirements on our operations. Our operating costs could be significantly increased in order to comply with new or stricter regulatory standards imposed by federal and state environmental agencies.

Our water and wastewater services are governed by various federal and state environmental protection and health and safety laws and regulations, including the federal Safe Drinking Water Act, the Clean Water Act, Clean Air Act, Resource Conservation and Recovery Act and similar state laws, and federal and state regulations issued under these laws by the EPA and state environmental regulatory agencies. These laws and regulations establish, among other things, criteria and standards for drinking water and for discharges into the waters of the U.S. as well as dam safety, air emissions, and residuals management. Pursuant to these laws, we are required to obtain various environmental permits from environmental regulatory agencies for our operations. We cannot assure you that we will be at all times in total compliance with these laws, regulations and permits. If we fail to comply with these laws, regulations or permits, we could be fined or otherwise sanctioned by regulators and such noncompliance could result in civil suits. Environmental laws and regulations are complex and change frequently. These laws, and the enforcement thereof, have tended to become more stringent over time. While we have budgeted for future capital and operating expenditures to comply with these laws and our permits, it is possible that new or stricter standards could be imposed that will require additional capital expenditures or raise our operating costs. Although these expenditures and costs may be recovered in the form of higher rates, there can be no assurance that the various state utility commissions that govern our business would approve rate increases to enable us to recover such expenditures and costs. In summary, we cannot assure you that our costs of complying with, current and future environmental and health and safety laws will not harm our business, financial condition, and results of operations.

Federal and state environmental laws, regulatory initiatives relating to hydraulic fracturing, changes in technology or hydraulic fracturing processes, and volatility in natural gas prices, could result in reduced demand for raw water utilized in hydraulic fracturing and harm our joint venture business, financial condition, or results of operations.

We have invested in a joint venture for the construction and operation of a private pipeline system to supply raw water to natural gas drilling operations for hydraulic fracturing. Hydraulic fracturing involves the injection under pressure of water, along with other materials such as sand, into rock formations to stimulate natural gas production. In general, the environmental community has taken an interest in monitoring and understanding the potential environmental impact of hydraulic fracturing. Although hydraulic fracturing is currently regulated, in the event the use of hydraulic fracturing is further limited through regulation, our investment in the raw water pipeline may be harmed in the event that demand for raw water is reduced.

Changes in technology or hydraulic fracturing processes may occur which allows drillers to reuse injected water on a limited basis, or apply treatment processes to allow further reuse of water for drilling. These changes may reduce demand for raw water.

Furthermore, natural gas prices have historically been volatile, and are likely to continue to be volatile. A decrease in demand for natural gas, due to price volatility, could result in reduced demand for raw water utilized in hydraulic fracturing. In the fourth quarter of 2015, the joint venture recognized an impairment charge on its long-lived assets, which reduced the carrying value of our investment in the joint venture. The impairment resulted from a marked decline in natural gas prices in 2015, a further reduction in the volume of water sales by the joint venture, which led to a lowered forecast on future sales volumes, as well as changes in the natural gas industry activities in the Marcellus Shale region and general market conditions. In the event hydraulic fracturing is limited, due to a further reduction in demand for natural gas or other factors affecting the industry, our investment in the raw water pipeline may be harmed should the demand for raw water be reduced.

Wastewater operations entail significant risks and may impose significant costs.

Wastewater collection and treatment and septage pumping and sludge hauling involve various unique risks. If collection or treatment systems fail or do not operate properly, or if there is a spill, untreated or partially treated wastewater could discharge onto property or into nearby streams and rivers, causing various damages and injuries, including environmental damage. These risks are most acute during periods of substantial rainfall or flooding, which are the main causes of wastewater overflow and system failure. Liabilities resulting from such damages and injuries could harm our business, financial condition, and results of operations.

Work stoppages and other labor relations matters could harm our operating results.

Approximately 37% of our workforce is unionized under 15 labor contracts with labor unions, which expire over several years. In light of rising costs for healthcare and retirement benefits, contract negotiations in the future may be difficult. We are subject to a risk of work stoppages and other labor actions as we negotiate with the unions to address these issues, which could harm our business, financial condition, and results of operations. We cannot assure you that issues with our labor forces will be resolved favorably to us in the future or that we will not experience work stoppages.

Significant or prolonged disruptions in the supply of important goods or services from third parties could harm our business, financial condition, and results of operations.

We are dependent on a continuing flow of important goods and services from suppliers for our water and wastewater businesses. A disruption or prolonged delays in obtaining important supplies or services, such as maintenance services, purchased water, chemicals, water pipe, valves, hydrants, electricity, or other materials, could harm our water or wastewater services and our ability to operate in compliance with all regulatory requirements, which could harm our business, financial condition, and results of operations. In some circumstances, we rely on third parties to provide important services (such as customer bill print and mail activities or utility service operations in some of our divisions) and a disruption in these services could harm our business, financial condition, and results of operations. Some possible reasons for a delay or disruption in the supply of important goods and services include:

- our suppliers may not provide materials that meet our specifications in sufficient quantities;
- our suppliers may provide us with water that does not meet applicable quality standards or is contaminated;
- our suppliers may face production delays due to natural disasters, strikes, lock-outs, or other such actions;
- one or more suppliers could make strategic changes in the lines of products and services they offer; and
- some of our suppliers, such as small companies, may be more likely to experience financial and operational difficulties than larger, well-established companies, because of their limited financial and other resources.

As a result of any of these factors, we may be required to find alternative suppliers for the materials and services on which we rely. Accordingly, we may experience delays in obtaining appropriate materials and services on a timely basis and in sufficient quantities from such alternative suppliers at a reasonable price, which could interrupt services to our customers and harm our business, financial condition, and results of operations.

We depend significantly on the services of the members of our management team, and the departure of any of those persons could cause our operating results to suffer.

Our success depends significantly on the continued individual and collective contributions of our management team. The loss of the services of any member of our management team or the inability to hire and retain experienced management personnel could harm our business, financial condition, and results of operations.

Climate change laws and regulations have been passed and are being proposed that require compliance with greenhouse gas emissions standards, as well as other climate change initiatives.

Climate change is receiving ever increasing attention worldwide. Many scientists, legislators, and others attribute global warming to increased levels of greenhouse gases ("GHG"), including carbon dioxide. Climate change laws and regulations enacted and proposed limit GHG emissions from covered entities, and require additional monitoring/reporting. At this time, the existing GHG laws and regulations are not expected to materially harm the Company's operations or capital expenditures. However, because of the uncertainty of future climate change regulatory requirements, particularly given the change in the federal administration, we cannot predict the potential impact of future laws and regulations on our business, financial condition, or results of operations. Although these future expenditures and costs for regulatory compliance may be recovered in the form of higher rates, there can be no assurance that the various state utility commissions that govern our business would approve rate increases to enable us to recover such expenditures and costs.

Some scientific experts are predicting a worsening of weather volatility in the future, possibly created by the climate change greenhouse gases. Changing severe weather patterns could require additional expenditures to reduce the risk associated with any increasing storm, flood and drought occurrences.

The issue of climate change is receiving ever increasing attention worldwide. Many climate change predictions, if true, present several potential challenges to water and wastewater utilities, such as: increased frequency and duration of droughts, increased precipitation and flooding, potential degradation of water quality, and changes in demand for services. We maintain an ongoing facility planning process, and this planning or the enactment of new standards may result in the need for additional capital expenditures or raise our operating costs. Because of the uncertainty of weather volatility related to climate change, we cannot predict its potential impact on our business, financial condition, or results of operations. Although any potential expenditures and costs may be recovered in the form of higher rates, there can be no assurance that the various state utility commissions that govern our business would approve rate increases to enable us to recover such expenditures and costs. We cannot assure you that our costs of complying with any climate change weather related measures will not harm our business, financial condition, or results of operations.

Item 1B *Unresolved Staff Comments*

None

Item 2. *Properties*

Our properties consist of water transmission and distribution mains and wastewater collection pipelines, water and wastewater treatment plants, pumping facilities, wells, tanks, meters, pipes, dams, reservoirs, buildings, vehicles, land, easements, rights-of-way, and other facilities and equipment used for the operation of our systems, including the collection, treatment, storage, and distribution of water and the collection and treatment of wastewater. Substantially all of our treatment, storage, and distribution properties are owned by our subsidiaries, and a substantial portion of our property is subject to liens of mortgage or indentures. These liens secure bonds, notes and other evidences of long-term indebtedness of our subsidiaries. For some properties that we acquired through the exercise of the power of eminent domain and other properties we purchased, we hold title for water supply purposes only. We own, operate and maintain over twelve thousand miles of transmission and distribution mains, 21 surface water treatment plants, many well treatment stations, and 187 wastewater treatment plants. A small portion of the properties are leased under long-term leases.

The following table indicates our net property, plant and equipment, in thousands of dollars, as of December 31, 2016 in the principal states where we operate:

	Net Property, Plant and Equipment		
Pennsylvania	$	3,185,885	63.7%
Ohio		434,230	8.7%
Illinois		357,013	7.1%
North Carolina		308,965	6.2%
Texas		274,909	5.5%
Other (1)		440,613	8.8%
Consolidated	$	5,001,615	100.0%

(1) Consists primarily of our operating subsidiaries in the following states: New Jersey, Indiana, and Virginia.

We believe that our properties are generally maintained in good condition and in accordance with current standards of good water and wastewater industry practice. We believe that our facilities are adequate and suitable for the conduct of our business and to meet customer requirements under normal circumstances.

Our corporate offices are leased from our subsidiary, Aqua Pennsylvania, and are located in Bryn Mawr, Pennsylvania.

Item 3. *Legal Proceedings*

There are various legal proceedings in which we are involved. Although the results of legal proceedings cannot be predicted with certainty, there are no pending legal proceedings, other than as set forth below, to which we or any of our subsidiaries is a party or to which any of our properties is the subject that we believe are material or are expected to materially harm our business, operating results or financial condition.

Item 4. *Mine Safety Disclosures*

Not applicable.

PART II

Item 5. *Market for the Registrant's Common Stock, Related Stockholder Matters and Purchases of Equity Securities*

Our common stock is traded on the New York Stock Exchange under the ticker symbol WTR. As of February 13, 2017, there were approximately 24,649 holders of record of our common stock.

The following table shows the high and low intraday sales prices for our common stock as reported on the New York Stock Exchange composite transactions reporting system and the cash dividends paid per share for the periods indicated:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2016					
Dividend paid per common share	$ 0.178	$ 0.178	$ 0.1913	$ 0.1913	$ 0.7386
Dividend declared per common share	0.178	0.178	0.1913	0.1913	0.7386
Price range of common stock					
- high	32.44	35.66	35.83	31.29	35.83
- low	28.35	30.31	29.53	28.03	28.03
2015					
Dividend paid per common share	$ 0.165	$ 0.165	$ 0.178	$ 0.178	$ 0.686
Dividend declared per common share	0.165	0.165	0.178	0.178	0.686
Price range of common stock					
- high	28.13	27.53	27.10	31.09	31.09
- low	25.42	24.40	24.45	26.20	24.40

We have paid dividends consecutively for 72 years. On August 2, 2016, our Board of Directors authorized an increase of 7.5% in the September 1, 2016 quarterly dividend over the dividend Aqua America paid in the previous quarter. As a result of this authorization, beginning with the dividend payment in September 2016, the annualized dividend rate increased to $0.7652 per share. This is the 26th dividend increase in the past 25 years and the 18th consecutive year that we have increased our dividend in excess of five percent. We presently intend to pay quarterly cash dividends in the future, on March 1, June 1, September 1, and December 1, subject to our earnings and financial condition, restrictions set forth in our debt instruments, regulatory requirements and such other factors as our Board of Directors may deem relevant. In 2016, our dividends paid represented 55.9% of net income.

The following table summarizes the Company's purchases of its common stock for the quarter ending December 31, 2016:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plan or Programs (2)
October 1-31, 2016	442	$ 32.57		720,348
November 1-30, 2016	1,124	$ 31.05		720,348
December 1-31, 2016	2,465	$ 30.20		-
Total	4,031	$ 30.70	-	-

(1) These amounts include the following: (a) 442 shares we acquired from employees associated with the withholding of shares to pay certain withholding taxes upon the vesting of restricted stock units; and (b) 3,589 shares we acquired from our employees who elected to pay the exercise price of their stock options (and then hold shares of the stock), upon exercise, by delivering to us shares of our common stock in accordance with the terms of our equity compensation plan that was previously approved by our shareholders and disclosed in our proxy statements. These features of our equity compensation plan are available to all employees who receive stock-based compensation under the plan. We purchased these shares at their fair market value, as determined by reference to the closing price of our common stock on the day of vesting of the restricted stock unit or on the day prior to the option exercise.

(2) In December 2014, our Board of Directors authorized a share buyback program of up to 1,000,000 shares to minimize share dilution through timely and orderly share repurchases. In December 2015, our Board of Directors added 400,000 shares to this program. This program expired on December 31, 2016.

Item 6. *Selected Financial Data*

Summary of Selected Financial Data (Unaudited)
Aqua America, Inc. and Subsidiaries
(In thousands of dollars, except per share amounts)

Years ended December 31,	2016	2015	2014	2013	2012
PER COMMON SHARE:					
Income from continuing operations:					
Basic	$ 1.32	$ 1.14	$ 1.21	$ 1.15	$ 1.04
Diluted	1.32	1.14	1.20	1.15	1.04
Income from discontinued operations:					
Basic	-	-	0.11	0.10	0.08
Diluted	-	-	0.11	0.10	0.08
Net income:					
Basic	1.32	1.14	1.32	1.26	1.13
Diluted	1.32	1.14	1.31	1.25	1.12
Cash dividends declared and paid	0.74	0.69	0.63	0.58	0.54
Return on Aqua America stockholders' equity	12.7%	11.7%	14.1%	14.4%	14.2%
Book value at year end	$ 10.43	$ 9.78	$ 9.37	$ 8.68	$ 7.91
Market value at year end	30.04	29.80	26.70	23.59	20.34
INCOME STATEMENT HIGHLIGHTS:					
Operating revenues	$ 819,875	$ 814,204	$ 779,903	$ 761,893	$ 750,685
Depreciation and amortization	133,008	128,737	126,535	123,985	116,180
Interest expense, net	80,594	76,536	76,397	77,316	77,757
Income from continuing operations before income taxes (1)	255,160	216,752	239,103	224,104	247,057
Provision for income taxes	20,978	14,962	25,219	21,233	65,220
Income from continuing operations (1)	234,182	201,790	213,884	202,871	181,837
Income from discontinued operations	-	-	19,355	18,429	14,726
Net income (1)	234,182	201,790	233,239	221,300	196,563
BALANCE SHEET HIGHLIGHTS:					
Total assets	$ 6,158,991	$ 5,717,873	$ 5,383,243	$ 5,027,430	$ 4,834,165
Property, plant and equipment, net	5,001,615	4,688,925	4,401,990	4,138,568	3,907,552
Aqua America stockholders' equity	1,850,068	1,725,930	1,655,343	1,534,835	1,385,704
Long-term debt, including current portion, excluding debt issuance costs (3)	1,910,633	1,779,205	1,619,270	1,554,871	1,588,992
Total debt, excluding debt issuance costs (3)	1,917,168	1,795,926	1,637,668	1,591,611	1,669,375
ADDITIONAL INFORMATION:					
Operating cash flows from continuing operations	$ 395,788	$ 370,794	$ 364,888	$ 365,409	$ 375,823
Capital additions	382,996	364,689	328,605	307,908	347,098
Net cash expended for acquisitions of utility systems and other	9,423	28,989	14,616	14,997	121,248
Dividends on common stock	130,923	121,248	112,106	102,889	93,423
Number of utility customers served (2)	972,265	957,866	940,119	928,200	917,986
Number of shareholders of common stock	24,750	25,269	25,780	25,833	26,216
Common shares outstanding (000)	177,394	176,544	176,753	176,751	175,209
Employees (full-time) (2)	1,551	1,617	1,617	1,542	1,556

(1) 2015 results includes Aqua America's share of a joint venture impairment charge of $21,433 ($32,975 pre-tax)
(2) Reflects continuing operations
(3) Debt issuance costs for the years ended December 31, 2016, 2015, 2014, 2013, and 2012 were $22,357, $23,165, $23,509, $24,387, and $24,352, respectively

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

OVERVIEW

The following discussion and analysis of our financial condition and results of operations should be read together with our Consolidated Financial Statements and related Notes included in this Annual Report. This discussion contains forward-looking statements that are based on management's current expectations, estimates and projections about our business, operations and financial performance. All dollar amounts are in thousands of dollars, except per share amounts.

The Company

Aqua America, Inc., (referred to as "Aqua America", the "Company", "we", "us", or "our"), a Pennsylvania corporation, is the holding company for regulated utilities providing water or wastewater services to what we estimate to be almost three million people in Pennsylvania, Ohio, Texas, Illinois, North Carolina, New Jersey, Indiana, and Virginia. Our largest operating subsidiary is Aqua Pennsylvania, Inc., which accounted for approximately 52% of our operating revenues and approximately 74% of our net income for 2016. As of December 31, 2016, Aqua Pennsylvania provided water or wastewater services to approximately one-half of the total number of people we serve. Aqua Pennsylvania's service territory is located in the suburban areas in counties north and west of the City of Philadelphia and in 27 other counties in Pennsylvania. Our other regulated utility subsidiaries provide similar services in seven other states. In addition, the Company's market-based activities are conducted through Aqua Resources, Inc. and Aqua Infrastructure, LLC. Aqua Resources provides water and wastewater service through operating and maintenance contracts with municipal authorities and other parties close to our utility companies' service territories; and offers, through a third party, water and sewer line repair service and protection solutions to households.

In 2016, the Company sold the following business units of Aqua Resources, which were reported as assets held for sale in the Company's consolidated balance sheets:

- a business unit which provided liquid waste hauling and disposal services; and
- a business unit which inspected, cleaned and repaired storm and sanitary wastewater lines.

Additionally, in 2016, the Company decided to market for sale a business unit within Aqua Resources, which installs and tests devices that prevent the contamination of potable water, for which the sale was completed in January 2017, and a business unit that repairs and performs maintenance on water and wastewater systems. These business units are reported as assets held for sale in the Company's consolidated balance sheets. Aqua Infrastructure provides non-utility raw water supply services for firms in the natural gas drilling industry.

Industry Mission

The mission of the investor-owned water utility industry is to provide quality and reliable water service at reasonable rates to customers, while earning a fair return for shareholders. A number of challenges face the industry, including:

- strict environmental, health and safety standards;
- aging utility infrastructure and the need for substantial capital investment;
- economic regulation by state, and/or, in some cases, local government;
- declining consumption per customer as a result of conservation;
- lawsuits and the need for insurance; and
- the impact of weather and sporadic drought conditions on water sales demand.

Economic Regulation

Most of our water and wastewater utility operations are subject to regulation by their respective state utility commissions, which have broad administrative power and authority to regulate billing rates, determine franchise areas and conditions of service, approve acquisitions, and authorize the issuance of securities. The utility commissions also generally establish uniform systems of accounts and approve the terms of contracts with affiliates and customers, business combinations with other utility systems, and loans and other financings. The policies of the utility commissions often differ from state to

state, and may change over time. A small number of our operations are subject to rate regulation by county or city government. Over time, the regulatory party in a particular state may change, as was the case for our Texas operations where, in 2014, economic regulation changed from the Texas Commission on Environmental Quality to the Texas Public Utility Commission. The profitability of our utility operations is influenced to a great extent by the timeliness and adequacy of rate allowances in the various states in which we operate. One consideration we may undertake in evaluating which states to focus our growth and investment strategy is whether a state provides for consolidated rates, a surcharge for replacing and rehabilitating infrastructure and other systems, and other regulatory policies that promote infrastructure investment and efficiency in processing rate cases.

Rate Case Management Capability – We strive to achieve the industry's mission by effective planning, efficient investments, and productive use of our resources. We maintain a rate case management capability to pursue timely and adequate returns on the capital investments that we make in improving our distribution system, treatment plants, information technology systems, and other infrastructure. This capital investment creates assets that are used and useful in providing utility service, and is commonly referred to as rate base. Timely, adequate rate relief is important to our continued profitability and in providing a fair return to our shareholders, and thus providing access to capital markets to help fund these investments. Accordingly, the objective of our rate case management strategy is to provide that the rates of our utility operations reflect, to the extent practicable, the timely recovery of increases in costs of operations (primarily labor and employee benefits, electricity, chemicals, transportation, maintenance expenses, insurance and claims costs, and costs to comply with environmental regulations), capital, and taxes. In pursuing our rate case strategy, we consider the amount of net utility plant additions and replacements made since the previous rate decision, the changes in the cost of capital, changes in our capital structure, and changes in operating and other costs. Based on these assessments, our utility operations periodically file rate increase requests with their respective state utility commissions or local regulatory authorities. In general, as a regulated enterprise, our water and wastewater rates are established to provide full recovery of utility operating costs, taxes, interest on debt used to finance capital investments, and a return on equity used to finance capital investments. Our ability to recover our expenses in a timely manner and earn a return on equity employed in the business helps determine the profitability of the Company. As of December 31, 2016, the Company's rate base is estimated to be $3,750,000, which is comprised of:

- $2,873,000 filed with respective state utility commissions or local regulatory authorities; and
- $877,000 not yet filed with respective state utility commissions or local regulatory authorities.

Our water and wastewater operations are composed of 53 rate divisions, each of which requires a separate rate filing for the evaluation of the cost of service and recovery of investments in connection with the establishment of tariff rates for that rate division. When feasible and beneficial to our utility customers, we have sought approval from the applicable state utility commission to consolidate rate divisions to achieve a more even distribution of costs over a larger customer base. All of the eight states in which we operate currently permit us to file a revenue requirement using some form of consolidated rates for some or all of the rate divisions in that state.

Revenue Surcharges – Six states in which we operate water utilities, and five states in which we operate wastewater utilities, permit us to add a surcharge to water or wastewater bills to offset the additional depreciation and capital costs associated with capital expenditures related to replacing and rehabilitating infrastructure systems. In all other states, water and wastewater utilities absorb all of the depreciation and capital costs of these projects between base rate increases without the benefit of additional revenues. The gap between the time that a capital project is completed and the recovery of its costs in rates is known as regulatory lag. This surcharge is intended to substantially reduce regulatory lag, which often acts as a disincentive to water and wastewater utilities to rehabilitate their infrastructure. In addition, some states permit our subsidiaries to use a surcharge or credit on their bills to reflect allowable changes in costs, such as changes in state tax rates, other taxes and purchased water costs, until such time as the new costs are fully incorporated in base rates.

Effects of Inflation – Recovery of the effects of inflation through higher water and wastewater rates is dependent upon receiving adequate and timely rate increases. However, rate increases are not retroactive and often lag increases in costs caused by inflation. On occasion, our regulated utility companies may enter into rate settlement agreements, which require us to wait for a period of time to file the next base rate increase request. These agreements may result in

regulatory lag whereby inflationary increases in expenses may not yet be reflected in rates, or a gap may exist between when a capital project is completed and the start of its recovery in rates. Even during periods of moderate inflation, the effects of inflation can have a negative impact on our operating results.

Growth-Through-Acquisition Strategy

Part of our strategy to meet the industry challenges is to actively explore opportunities to expand our utility operations through acquisitions of water and wastewater utilities either in areas adjacent to our existing service areas or in new service areas, and to explore acquiring market-based businesses that are complementary to our regulated water and wastewater operations. To complement our growth strategy, we routinely evaluate the operating performance of our individual utility systems, and in instances where limited economic growth opportunities exist or where we are unable to achieve favorable operating results or a return on equity that we consider acceptable, we will seek to sell the utility system and reinvest the proceeds in other utility systems. Consistent with this strategy, we are focusing our acquisitions and resources in states where we have critical mass of operations in an effort to achieve economies of scale and increased efficiency. Our growth-through-acquisition strategy allows us to operate more efficiently by sharing operating expenses over more utility customers and provides new locations for possible future growth. Another element of our growth strategy is the consideration of opportunities to expand by acquiring other utilities, including those that may be in a new state if they provide promising economic growth opportunities and a return on equity that we consider acceptable. The ability to successfully execute this strategy and meet the industry challenges is largely due to our core competencies, financial position, and our qualified and trained workforce, which we strive to retain by treating employees fairly and providing our employees with development and growth opportunities.

During 2016, we completed 19 acquisitions, which along with the organic growth in our existing systems, represents 15,282 new customers. During 2015, we completed 16 acquisitions, which along with the organic growth in our existing systems, represents 17,747 new customers. During 2014, we completed 16 acquisitions, which along with the organic growth in our existing systems, represents 12,120 new customers.

In addition to acquisitions, from time to time, we sell utility systems or relinquish ownership in systems through condemnation. Consistent with our strategy to evaluate future growth opportunities and the financial performance of our individual utility systems, we divested our wastewater treatment facility in Georgia in March 2014. In addition, in December 2014, we sold our water utility systems in Fort Wayne, Indiana.

The operating results, cash flows, and financial position of the Company's water utility systems in Fort Wayne, Indiana and Georgia were presented in the Company's consolidated financial statements as discontinued operations.

We believe that utility acquisitions, organic growth, and expansion of our market-based business will continue to be the primary sources of growth for us. With approximately 53,000 community water systems in the U.S., 82% of which serve less than 3,300 customers, the water industry is the most fragmented of the major utility industries (telephone, natural gas, electric, water and wastewater). In the states where we operate regulated utilities, we believe there are approximately 14,500 community water systems of widely-varying size, with the majority of the population being served by government-owned water systems.

Although not as fragmented as the water industry, the wastewater industry in the U.S. also presents opportunities for consolidation. According to the U.S. Environmental Protection Agency's ("EPA") most recent survey of wastewater treatment facilities (which includes both government-owned and privately-owned facilities) in 2012, there are approximately 15,000 such facilities in the nation serving approximately 76% of the U.S. population. The remaining population represents individual homeowners with their own treatment facilities; for example, community on-lot disposal systems and septic tank systems. The vast majority of wastewater facilities are government-owned rather than privately-owned. The EPA survey also indicated that there are approximately 4,000 wastewater facilities in operation in the states where we operate regulated utilities.

Because of the fragmented nature of the water and wastewater utility industries, we believe that there are many potential water and wastewater system acquisition candidates throughout the United States. We believe the factors driving the consolidation of these systems are:

- the benefits of economies of scale;
- the increasing cost and complexity of environmental regulations;
- the need for substantial capital investment;
- the need for technological and managerial expertise;
- the desire to improve water quality and service;
- limited access to cost-effective financing;
- the monetizing of public assets to support, in some cases, the declining financial condition of municipalities; and
- the use of system sale proceeds by a municipality to accomplish other public purposes.

We are actively exploring opportunities to expand our water and wastewater utility operations through regulated utility acquisitions or otherwise, including the management of publicly-owned facilities in a public-private partnership. We intend to continue to pursue acquisitions of government-owned and privately-owned water and wastewater utility systems that provide services in areas near our existing service territories or in new service areas. It is our intention to focus on growth opportunities in states where we have critical mass, which allows us to improve economies of scale through spreading our fixed costs over more customers – this cost efficiency should enable us to reduce the size of future rate increases. Currently, the Company seeks to acquire businesses in the U.S. regulated sector, which includes water and wastewater utilities and other regulated utilities, and to pursue growth ventures in market-based activities, such as infrastructure opportunities that are supplementary and complementary to our regulated businesses.

Sendout

Sendout represents the quantity of treated water delivered to our distribution systems. We use sendout as an indicator of customer demand. Weather conditions tend to impact water consumption, particularly during the late spring, summer, and early fall when discretionary and recreational use of water is at its highest. Consequently, a higher proportion of annual operating revenues are realized in the second and third quarters. In general, during this period, an extended period of hot and dry weather increases water consumption, while above-average rainfall and cool weather decreases water consumption. Conservation efforts, construction codes that require the use of low-flow plumbing fixtures, as well as mandated water use restrictions in response to drought conditions can reduce water consumption. We believe an increase in conservation awareness by our customers, including the increased use of more efficient plumbing fixtures and appliances, may continue to result in a long-term structural trend of declining water usage per customer. These gradual long-term changes are normally taken into account by the utility commissions in setting rates, whereas significant short-term changes in water usage, resulting from drought warnings, water use restrictions, or extreme weather conditions, may not be fully reflected in the rates we charge between rate proceedings.

On occasion, drought warnings and water use restrictions are issued by governmental authorities for portions of our service territories in response to extended periods of dry weather conditions, regardless of our ability to meet unrestricted customer water demands. The timing and duration of the warnings and restrictions can have an impact on our water revenues and net income. In general, water consumption in the summer months is affected by drought warnings and restrictions to a higher degree because discretionary and recreational use of water is highest during the summer months, particularly in our northern service territories. At other times of the year, warnings and restrictions generally have less of an effect on water consumption. Currently, portions of our Pennsylvania (four counties), New Jersey, and Texas service areas are under drought warnings. The entire Pennsylvania and New Jersey service areas are under drought watch. Portions of our northern and central Texas service areas have conservation water restrictions. Drought warnings and watches result in the public being asked to voluntarily reduce water consumption.

The geographic diversity of our utility customer base reduces the effect of our exposure to extreme or unusual weather conditions in any one area of the country. During the year ended December 31, 2016, our operating revenues were derived principally from the following states: approximately 52% in Pennsylvania, 13% in Ohio, 9% in Texas, 8% in Illinois, and 7% in North Carolina.

Performance Measures Considered by Management

We consider the following financial measures (and the period to period changes in these financial measures) to be the fundamental basis by which we evaluate our operating results:

- earnings per share;
- operating revenues;
- income from continuing operations;
- earnings before interest, taxes, and depreciation ("EBITD");
- earnings before income taxes as compared to our operating budget;
- net income; and
- the dividend rate on common stock.

In addition, we consider other key measures in evaluating our utility business performance within our Regulated segment:

- our number of utility customers;
- the ratio of operations and maintenance expense compared to operating revenues (this percentage is termed "operating expense ratio");
- return on revenues (income from continuing operations divided by operating revenues);
- rate base growth;
- return on equity (net income divided by stockholders' equity); and
- the ratio of capital expenditures to depreciation expense.

Furthermore, we review the measure of earnings before unusual items that are noncash and not directly related to our core business, such as the measure of adjusted earnings to remove the joint venture impairment charge, which was recognized in the fourth quarter of 2015. Refer to Note 1 – *Summary of Significant Accounting Policies – Investment in Joint Venture* in this Annual Report for information regarding the impairment charge. We review these measurements regularly and compare them to historical periods, to our operating budget as approved by our Board of Directors, and to other publicly-traded water utilities.

Our operating expense ratio is one measure that we use to evaluate our operating efficiency and management effectiveness of our regulated operations. Our operating expense ratio is affected by a number of factors, including the following:

- ***Regulatory lag*** – Our rate filings are designed to provide for the recovery of increases in costs of operations (primarily labor and employee benefits, electricity, chemicals, transportation, maintenance expenses, insurance and claim costs, and costs to comply with environmental regulations), capital, and taxes. The revenue portion of the operating expense ratio can be impacted by the timeliness of recovery of, and the return on capital investments. The operating expense ratio is further influenced by regulatory lag (increases in operations and maintenance expenses not yet recovered in rates or a gap between the time that a capital project is completed and the start of its cost recovery in rates). The operating expense ratio is also influenced by decreases in operating revenues without a commensurate decrease in operations and maintenance expense, such as changes in customer water consumption as impacted by adverse weather conditions, conservation trends, or as a result of utility rates incorporating the effects of income tax benefits derived from deducting qualifying utility asset improvements for tax purposes that are capitalized for book purposes in Aqua Pennsylvania and consequently forgoing operating revenue increases. During periods of inflation, our operations and maintenance expenses may increase, impacting the operating expense ratio, as a result of regulatory lag, since our rate cases may not be filed timely and are not retroactive.

- ***Acquisitions*** – In general, acquisitions of smaller undercapitalized utility systems in some areas may initially increase our operating expense ratio if the operating revenues generated by these operations are accompanied by a higher ratio of operations and maintenance expenses as compared to other operational areas of the company that are more densely populated and have integrated operations. In these cases, the acquired operations are characterized as

having relatively higher operating costs to fixed capital costs, in contrast to the majority of our operations, which generally consist of larger, interconnected systems, with higher fixed capital costs (utility plant investment) and lower operating costs per customer. In addition, we operate market-based subsidiary companies, Aqua Resources and Aqua Infrastructure. The cost-structure of these market-based companies differs from our utility companies in that, although they may generate free cash flow, these companies have a much higher ratio of operations and maintenance expenses to operating revenues and a lower capital investment and, consequently, a lower ratio of fixed capital costs versus operating revenues in contrast to our regulated operations. As a result, the operating expense ratio is not comparable between the businesses. These market-based subsidiary companies are not a component of our Regulated segment.

We continue to evaluate initiatives to help control operating costs and improve efficiencies.

Consolidated Selected Financial and Operating Statistics

Our selected five-year consolidated financial and operating statistics follow:

Years ended December 31,	2016	2015	2014	2013	2012
Utility customers:					
Residential water	801,190	791,404	779,665	771,660	766,121
Commercial water	40,582	40,151	39,614	39,237	38,805
Industrial water	1,349	1,353	1,357	1,368	1,373
Other water	19,036	17,420	17,412	17,230	16,643
Wastewater	110,108	107,538	102,071	98,705	95,044
Total utility customers	972,265	957,866	940,119	928,200	917,986
Operating revenues:					
Residential water	$ 484,901	$ 477,773	$ 460,013	$ 457,404	$ 441,240
Commercial water	131,170	126,677	122,795	121,178	117,559
Industrial water	27,916	28,021	27,369	25,263	24,822
Other water	62,983	56,997	59,474	57,446	70,693
Wastewater	82,780	79,399	76,472	73,062	68,225
Other utility	10,357	10,746	9,934	10,174	10,416
Regulated segment total	800,107	779,613	756,057	744,527	732,955
Other and eliminations	19,768	34,591	23,846	17,366	17,730
Consolidated operating revenues	$ 819,875	$ 814,204	$ 779,903	$ 761,893	$ 750,685
Operations and maintenance expense	$ 304,897	$ 309,310	$ 288,556	$ 283,561	$ 270,042
Joint venture impairment charge (1)	$ -	$ 21,433	$ -	$ -	$ -
Income from continuing operations	$ 234,182	$ 201,790	$ 213,884	$ 202,871	$ 181,837
Net income	$ 234,182	$ 201,790	$ 233,239	$ 221,300	$ 196,563
Capital expenditures	$ 382,996	$ 364,689	$ 328,605	$ 307,908	$ 347,098
Operating Statistics					
Selected operating results as a percentage of operating revenues:					
Operations and maintenance	37.2%	38.0%	37.0%	37.2%	36.0%
Depreciation and amortization	16.2%	15.8%	16.2%	16.3%	15.5%
Taxes other than income taxes	6.9%	6.8%	6.5%	6.9%	6.2%
Interest expense, net	9.8%	9.4%	9.8%	10.1%	10.4%
Income from continuing operations	28.6%	24.8%	27.4%	26.6%	24.2%
Return on Aqua America stockholders' equity	12.7%	11.7%	14.1%	14.4%	14.2%
Ratio of capital expenditures to depreciation expense	2.9	2.9	2.7	2.6	3.1
Effective tax rate (2)	8.2%	6.9%	10.5%	9.5%	26.4%

(1) Represents a $21,433 ($32,975 pre-tax) joint venture impairment charge. This amount represents our share of the impairment charge recognized by our joint venture that operates a private pipeline to supply raw water to firms with natural gas well drilling operations.

(2) See Results of Operations – *Income Taxes* for a discussion of the effective tax rate change that commenced in 2012.

RESULTS OF OPERATIONS

Our income from continuing operations has grown at an annual compound rate of approximately 10.9% and our net income has grown at an annual compound rate of approximately 10.4% during the five-year period ended December 31, 2016. During the past five years, operating revenues grew at a compound rate of 3.8% and operating expenses grew at a compound rate of 4.2%.

Operating Segments

We have identified ten operating segments and we have one reportable segment based on the following:

- Eight segments are composed of our water and wastewater regulated utility operations in the eight states where we provide these services. These operating segments are aggregated into one reportable segment since each of these operating segments has the following similarities: economic characteristics, nature of services, production processes, customers, water distribution and/or wastewater collection methods, and the nature of the regulatory environment. Our single reportable segment is named the Regulated segment.

- Two segments are not quantitatively significant to be reportable and are composed of Aqua Resources and Aqua Infrastructure. These segments are included as a component of "Other," in addition to corporate costs that have not been allocated to the Regulated segment and intersegment eliminations. Corporate costs include general and administrative expenses, and interest expense.

Unless specifically noted, the following discussion and analysis provides information on our consolidated results of continuing operations. The following table provides the Regulated segment and consolidated information for the years ended December 31, 2016, 2015, and 2014:

	2016			2015		
	Regulated	Other and Eliminations	Consolidated	Regulated	Other and Eliminations	Consolidated
Operating revenues	$ 800,107	$ 19,768	$ 819,875	$ 779,613	$ 34,591	$ 814,204
Operations and maintenance expense	285,347	19,550	304,897	282,866	26,444	309,310
Taxes other than income taxes	53,916	2,469	56,385	52,361	2,696	55,057
Earnings (loss) before interest, taxes, depreciation and amortization	$ 460,844	$ (2,251)	458,593	$ 444,386	$ 5,451	449,837
Depreciation and amortization			133,008			128,737
Operating income			325,585			321,100
Other expense (income):						
Interest expense, net			80,594			76,536
Allowance for funds used during construction			(8,815)			(6,219)
Gain on sale of other assets			(378)			(468)
Gain on extinguishment of debt			-			(678)
Equity (income) loss in joint venture			(976)			35,177
Provision for income taxes			20,978			14,962
Net income			$ 234,182			$ 201,790

	2014		
	Regulated	Other and Eliminations	Consolidated
Operating revenues	$ 756,057	$ 23,846	$ 779,903
Operations and maintenance expense	274,754	13,802	288,556
Taxes other than income taxes	48,218	2,235	50,453
Earnings before interest, taxes, depreciation and amortization	$ 433,085	$ 7,809	440,894
Depreciation and amortization			126,535
Operating income			314,359
Other expense (income):			
Interest expense, net			76,397
Allowance for funds used during construction			(5,134)
Loss on sale of other assets			4
Equity loss in joint venture			3,989
Provision for income taxes			25,219
Income from continuing operations			213,884
Income from discontinued operations, net of income taxes of $12,800			19,355
Net income			$ 233,239

Consolidated Results

Operating Revenues – Operating revenues totaled $819,875 in 2016, $814,204 in 2015, and $779,903 in 2014. The growth in revenues over the past three years is a result of increases in our customer base and our water and wastewater rates. The number of customers increased at an annual compound rate of 1.4% over the past three years due to acquisitions and organic growth, adjusted to exclude customers associated with utility system dispositions. Acquisitions in our Regulated segment have provided additional water and wastewater revenues of $8,201 in 2016, $8,900, in 2015, and $2,732 in 2014. Rate increases implemented during the past three years have provided additional operating revenues of $4,319 in 2016, $8,503 in 2015, and $5,250 in 2014.

On June 7, 2012, Aqua Pennsylvania reached a settlement agreement in its last rate filing with the Pennsylvania Public Utility Commission, which in addition to a water rate increase, provided for a reduction in current income tax expense as a result of the recognition of qualifying income tax benefits upon Aqua Pennsylvania changing its tax accounting method to permit the expensing of qualifying utility asset improvement costs that historically had been capitalized and depreciated for book and tax purposes. In December 2012, Aqua Pennsylvania implemented this change which provides for the flow-through of income tax benefits that resulted in a substantial reduction in income tax expense and greater net income and cash flow. As a result, Aqua Pennsylvania was able to suspend its water Distribution System Improvement Charges in 2013 and lengthen the amount of time until the next Aqua Pennsylvania rate case is filed. During 2016, 2015, and 2014, the income tax accounting change resulted in income tax benefits of $78,530, $72,944, and $69,048 that reduced the Company' current income tax expense and increased net income. The Company recognized a tax deduction on its 2012 Federal tax return of $380,000 for qualifying capital expenditures made prior to 2012, and based on the settlement agreement, beginning in 2013, the Company began to amortize 1/10th of these expenditures, or $38,000 annually, which reduced income tax expense and increased the Company's net income by $16,734, which is included in the income tax benefits noted in the previous sentence. In accordance with the settlement agreement, this amortization is expected to reduce income tax expense during periods when qualifying parameters are met. Aqua Pennsylvania expects to file an infrastructure investment surcharge in 2017 and expects to file a rate case in 2018, with resolution of the rate case expected in 2019.

Our operating subsidiaries received rate increases representing estimated annualized revenues of $3,589 in 2016 resulting from seven rate decisions, $3,347 in 2015 resulting from four rate decisions, and $9,886 in 2014 resulting from twelve rate decisions,. Revenues from these increases realized in the year of grant were $1,801 in 2016, $2,887 in 2015, and $5,375 in 2014. As of December 31, 2016, our operating subsidiaries have filed two rate requests, which are being reviewed by the state utility commissions, proposing an aggregate increase of $7,976 in annual revenues. During 2017, we intend to file three additional rate requests proposing an aggregate of approximately $13,425 of increased annual revenues; the timing and extent to which our rate increase requests may be granted will vary by state.

Currently, Pennsylvania, Illinois, Ohio, Indiana, New Jersey, and North Carolina allow for the use of a surcharge for replacing and rehabilitating infrastructure systems. The rate increases under this surcharge typically adjust periodically based on additional qualified capital expenditures completed or anticipated in a future period. This surcharge is capped as a percentage of base rates, generally at 5% to 12.75% of base rates, and is reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a regulatory benchmark. These surcharges provided revenues of $7,379 in 2016, $3,261 in 2015, and $4,598 in 2014.

Our Regulated segment also includes operating revenues of $10,357 in 2016, $10,746 in 2015, and $9,934 in 2014 associated with contract operations that are integrated into the regulated utility business and operations. These amounts vary over time according to the level of activity associated with the utility contract operations.

In addition to the Regulated segment operating revenues, we recognized market-based revenues that are associated with Aqua Resources and Aqua Infrastructure of $20,091 in 2016, $34,909 in 2015, and $24,189 in 2014. The decrease in revenues in 2016 is due to the disposition of business units within Aqua Resources.

Operations and Maintenance Expenses – Operations and maintenance expenses totaled $304,897 in 2016, $309,310 in 2015, and $288,556 in 2014. Most elements of operating costs are subject to the effects of inflation and changes in the

number of customers served. Several elements are subject to the effects of changes in water consumption, weather, and the degree of water treatment required due to variations in the quality of the raw water. The principal elements of operating costs are labor and employee benefits, electricity, chemicals, transportation, maintenance expenses, insurance and claims costs, and costs to comply with environmental regulations. Electricity and chemical expenses vary in relationship to water consumption, raw water quality, and price changes. Maintenance expenses are sensitive to extremely cold weather, which can cause water mains to rupture, resulting in additional costs to repair the affected main. Operations and maintenance expenses decreased in 2016 as compared to 2015 by $4,413 or 1.4%, primarily due to:

- decreases in market-based activities expenses of $10,393;
- a decrease in water production costs of $3,156;
- the effects of the recognition in 2015 of leadership transition expenses of $2,510, the recording of a reserve of $1,862 for water rights held for future use, and the recording of a legal contingency reserve of $1,580;
- the reversal of a reserve for a legal contingency of $1,580;
- offset by an increase in postretirement benefits of $5,554; and
- additional operating costs associated with acquisitions of $4,538.

Operations and maintenance expenses increased in 2015 as compared to 2014 by $20,754 or 7.2%, primarily due to:

- additional operating costs associated with acquisitions, consisting of market-based activities of $8,313 and utility systems of $6,823;
- an increase in water productions costs of $3,401;
- leadership transition expenses of $2,510;
- the recording of a reserve of $1,862 for water rights held for future use;
- the recording of a legal contingency reserve of $1,580;
- the effect of the favorable recognition of a regulatory asset in 2014 of $1,575;
- an increase in legal fees of $1,420; and
- offset by a decrease in postretirement benefits expense of $4,447.

The increase in water production costs of $3,401 was impacted by an increase in energy costs resulting from the extreme cold temperatures experienced in many of our service territories in the first quarter of 2015.

Depreciation and Amortization Expenses – Depreciation expense was $130,987 in 2016, $125,290 in 2015, and $123,054 in 2014, and has increased principally as a result of the significant capital expenditures made to expand and improve our utility facilities, and our acquisitions of new utility systems. The increase for 2015 was impacted by the absence of a credit recognized in 2014 for the effect of decreased depreciation rates implemented in our Texas operating subsidiary, offset by a decrease in depreciation rates, implemented in 2015, for Aqua Pennsylvania.

Amortization expense was $2,021 in 2016, $3,447 in 2015, and $3,481 in 2014, and has decreased primarily due to the completion of the recovery of our costs associated with various rate filings. Expenses associated with filing rate cases are deferred and amortized over periods that generally range from one to three years.

Taxes Other than Income Taxes – Taxes other than income taxes totaled $56,385 in 2016, $55,057 in 2015, and $50,453 in 2014. The increase in 2016 was primarily due to an increase of $578 for pumping fees in Texas due to higher water production, a rate increase, and the addition of two water systems, and an increase in gross receipts, excise and franchise taxes of $502. The increase in 2015 was primarily due to an increase in property taxes of $2,412 largely due to the effect of a non-recurring credit realized in 2014 that resulted in a reduction in property taxes for our Ohio operating subsidiary.

Interest Expense, net – Net interest expense was $80,594 in 2016, $76,536 in 2015, and $76,397 in 2014. Interest income of $217 in 2016, $272 in 2015, and $316 in 2014 was netted against interest expense. Net interest expense increased in 2016 due to an increase in average short-term borrowings of $9,808 at higher short-term interest rates and an increase in average outstanding fixed rate long-term debt of $98,006 partially offset by a decline in long-term interest rates. Net

interest expense increased in 2015 due to an increase in average short-term borrowings of $13,977 and an increase in average outstanding fixed rate long-term debt of $91,785, partially offset by a decline in long-term interest rates. Interest income decreased in 2015 due to lower investment rates. The weighted average cost of fixed rate long-term debt was 4.26% at December 31, 2016, 4.57% at December 31, 2015, and 4.85% at December 31, 2014. The weighted average cost of fixed and variable rate long-term debt was 4.23% at December 31, 2016, 4.44% at December 31, 2015, and 4.65% at December 31, 2014.

Allowance for Funds Used During Construction – The allowance for funds used during construction ("AFUDC") was $8,815 in 2016, $6,219 in 2015, and $5,134 in 2014, and varies as a result of changes in the average balance of utility plant construction work in progress, to which AFUDC is applied, changes in the AFUDC rate which is based predominantly on short-term interest rates, changes in the balance of short-debt, changes in the amount of AFUDC related to equity, and changes in the average balance of the proceeds held from tax-exempt bond issuances that are restricted to funding specific capital projects. The increase in 2016 and 2015 is primarily due to an increase in the AFUDC rate as a result of an increase in the amount of AFUDC related to equity and in 2016 and 2015 an increase in the average balance of utility plant construction work in progress, to which AFUDC is applied. The amount of AFUDC related to equity was $6,561 in 2016, $4,621 in 2015, and $3,640 in 2014.

(Gain) Loss on Sale of Other Assets – (Gain) loss on sale of other assets totaled $(378) in 2016, $(468) in 2015, and $4 in 2014, and consists of the sales of property, plant and equipment and marketable securities.

Gain on Extinguishment of Debt – The gain on extinguishment of debt of $678 in 2015 results from the recognition of the unamortized issuance premium for the early redemption of $95,985 of tax-exempt bonds at 5.00% that were originally maturing between 2035 and 2038.

Equity (Earnings) Loss in Joint Venture – Equity (earnings) loss in joint venture totaled $(976) in 2016, $35,177 in 2015, and $3,989 in 2014. The equity earnings in 2016 resulted from the recognition of a connection fee earned by the joint venture in 2016 for which our share was $1,831 and a reduction in depreciation expense resulting from the noncash impairment charge recognized by the joint venture on its long-lived assets in 2015. The increase in equity loss in joint venture in 2015 of $31,188 is primarily due to a noncash impairment charge recognized by the joint venture on its long-lived assets for which our share was $32,975, partially offset by a decrease in depreciation expense resulting from the 2015 increase in depreciable life for the joint venture's pipeline assets. The impairment charge was recognized in the fourth quarter of 2015 as a result of a determination that the long-lived assets, primarily consisting of a pipeline and pump station, had become impaired due to a marked decline in natural gas prices in 2015, and in particular a further decline in the fourth quarter of 2015, a distinguishable reduction in the volume of water sales by the joint venture which led to a lowered forecast in the fourth quarter of 2015 on future water sales volumes by the joint venture, as well as changes in the natural gas industry and market conditions. These market conditions were largely associated with natural gas prices, which sharply declined in the fourth quarter and this downturn no longer appeared to be temporary and instead may be a long-term condition.

Income Taxes – Our effective income tax rate was 8.2% in 2016, 6.9% in 2015, and 10.5% in 2014. The effective income tax rate for 2016, 2015, and 2014 was affected by the 2012 income tax accounting change for qualifying utility asset improvements at Aqua Pennsylvania which resulted in a $78,530, $72,944, and $69,048 net reduction to the Company's 2016, 2015, and 2014 Federal and state income tax expense, respectively. As of December 31, 2016, the Company has an unrecognized tax benefit related to the Company's change in its tax accounting method for qualifying utility asset improvement costs, of which $20,674 of these tax benefits would further reduce the Company's effective income tax rate in the event the Company does sustain all, or a portion, of its tax position in the period this information is determined.

Summary –

	Years ended December 31,		
	2016	2015	2014
Operating income	$ 325,585	$ 321,100	$ 314,359
Income from continuing operations	$ 234,182	$ 201,790	$ 213,884
Income from discontinued operations	-	-	19,355
Net income	$ 234,182	$ 201,790	$ 233,239
Diluted income from continuing operations per share	$ 1.32	$ 1.14	$ 1.20
Diluted income from discontinued operations per share	-	-	0.11
Diluted net income per share	1.32	1.14	1.31

The changes in the per share income from continuing operations in 2016 and 2015 over the previous years were due to the aforementioned changes.

Although we have experienced increased income in the recent past, continued adequate rate increases reflecting increased operating costs and new capital investments, as well as a continuation of income tax benefits related to eligible utility asset improvement costs are important to the future realization of improved profitability.

Fourth Quarter Results – The following table provides our fourth quarter results:

	Three Months Ended December 31,	
	2016	2015
Operating revenues	$ 196,799	$ 197,067
Operations and maintenance	77,550	77,856
Depreciation	33,342	31,760
Amortization	654	858
Taxes other than income taxes	13,291	11,978
	124,837	122,452
Operating income	71,962	74,615
Other expense (income):		
Interest expense, net	20,458	19,732
Allowance for funds used during construction	(2,369)	(2,289)
Loss (gain) on sale of other assets	12	(130)
Gain on extinguishment of debt	-	(678)
Equity loss in joint venture	167	33,681
Income before income taxes	53,694	24,299
Provision for income taxes	4,045	(4,135)
Net income	$ 49,649	$ 28,434

The decrease in operating revenues of $268 was primarily due to a decrease in market-based activities revenue of $4,945 due to dispositions, offset by an increase in customer water consumption, additional revenues of $1,235 associated with a larger customer base due to utility acquisitions, and an increase in water and wastewater rates of $1,124.

The decrease in operations and maintenance expense of $306 is due primarily to a decrease in market-based activities expenses of $4,169, and a decrease in the Company's self-insured employee medical benefit program expense of $1,229, partially offset by an increase in postretirement benefits expense of $1,533, and additional operating costs associated with acquisitions of $500.

Depreciation expense increased by $1,582 primarily due to the utility plant placed in service since December 31, 2015.

The increase in other taxes of $1,313 is primarily due to an increase in property taxes of $900.

Interest expense increased by $726 due to an increase in the average outstanding debt balance.

The gain on extinguishment of debt recognized in 2015 is due to the recognition of the unamortized premium associated with the early redemption of long-term debt.

The decrease in equity loss in joint venture of $33,514 is primarily due to the effect of the noncash impairment charge recognized in 2015 by the joint venture (discussed below under "Management's Discussion and Analysis of Financial Condition and Results of Operations – *Consolidated Cash Flow and Capital Expenditures – Joint Venture*") for which our share was $32,975.

The provision for income taxes increased by $8,180 primarily as a result of the change in income before income taxes.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated Cash Flow and Capital Expenditures

Net operating cash flows from continuing operations, dividends paid on common stock, capital expenditures used in continuing operations, including allowances for funds used during construction, and expenditures for acquiring water and wastewater systems for our continuing operations for the five years ended December 31, 2016 were as follows:

	Net Operating Cash Flows	Dividends	Capital Expenditures	Acquisitions
2012	375,823	93,423	347,098	121,248
2013	365,409	102,889	307,908	14,997
2014	364,888	112,106	328,605	14,616
2015	370,794	121,248	364,689	28,989
2016	395,788	130,923	382,996	9,423
	$ 1,872,702	$ 560,589	$ 1,731,296	$ 189,273

Included in capital expenditures for the five-year period are: expenditures for the rehabilitation of existing water and wastewater systems, the expansion of our water and wastewater systems, modernization and replacement of existing treatment facilities, water meters, office facilities, information technology, vehicles, and equipment. During this five-year period, we received $31,166 of customer advances and contributions in aid of construction to finance new water mains and related facilities that are not included in the capital expenditures presented in the above table. In addition, during this period, we have made repayments of debt of $914,684, and have refunded $22,029 of customers' advances for construction. Dividends increased during the past five years as a result of annual increases in the dividends declared and paid and increases in the number of shares outstanding.

Our planned 2017 capital program, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to be more than $450,000 in infrastructure improvements for the communities we serve. The 2017 capital program is expected to include $206,900 for infrastructure rehabilitation surcharge qualified projects, of which $175,800 is for Aqua Pennsylvania. On January 1, 2013, Aqua Pennsylvania reset its water infrastructure rehabilitation surcharge to zero resulting from the change in its tax method of accounting for qualifying utility asset improvements as described below. Although we were not eligible to use an infrastructure rehabilitation surcharge with our Aqua Pennsylvania water customers since 2012, we were able to use the income tax savings derived from the qualifying utility asset improvements to continue to maintain a similar capital investment program as 2012. Our planned 2017 capital program in Pennsylvania is estimated to be approximately $304,000 a portion of which is expected to be eligible as a deduction for qualifying utility asset improvements for Federal income tax purposes. Our overall 2017 capital program, along with $150,671 of debt repayments, and $200,395 of other contractual cash obligations, as reported in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations – *Contractual Obligations*", has been, or is expected to be, financed through internally-generated funds, our revolving credit facilities, and the issuance of long-term debt.

Future utility construction in the period 2018 through 2019, including recurring programs, such as the ongoing replacement or rehabilitation of water meters, water mains, water treatment plant upgrades, storage facility renovations, and additional transmission mains to meet customer demands, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to require aggregate expenditures of approximately $826,000. We anticipate that less than one-half of these expenditures will require external financing. We expect to refinance $193,532 of long-term debt during this period as they become due with new issues of long-term debt, internally-generated funds, and our revolving credit facilities. The estimates discussed above do not include any amounts for possible future acquisitions of water and wastewater systems or the financing necessary to support them.

Our primary sources of liquidity are cash flows from operations (including the allowed deferral of Federal income tax payments), borrowings under various short-term lines of credit and other credit facilities, and customer advances and contributions in aid of construction. Our cash flow from operations, or internally-generated funds, is impacted by the timing of rate relief, water consumption, and changes in Federal tax laws with respect to accelerated tax depreciation or deductions for utility construction projects. We fund our capital and typical acquisitions through internally-generated funds, supplemented by short-term lines of credit. Over time, we partially repay or pay-down our short-term lines of credit with long-term debt. The ability to finance our future construction programs, as well as our acquisition activities, depends on our ability to attract the necessary external financing and maintain internally-generated funds. Rate orders permitting compensatory rates of return on invested capital and timely rate adjustments will be required by our operating subsidiaries to achieve an adequate level of earnings and cash flow to enable them to secure the capital they will need to operate and to maintain satisfactory debt coverage ratios.

On June 7, 2012, Aqua Pennsylvania reached a settlement agreement in its rate filing with the Pennsylvania Public Utility Commission, which in addition to a water rate increase, provided for a reduction in current income tax expense as a result of the recognition of qualifying income tax benefits upon Aqua Pennsylvania changing its tax accounting method to permit the expensing of qualifying utility asset improvement costs that have historically been capitalized and depreciated for book and tax purposes. In December 2012, Aqua Pennsylvania implemented this change, which resulted in a substantial reduction in income tax expense and greater net income and cash flow, and as a result allowed Aqua Pennsylvania to suspend its water Distribution System Improvement Charges in 2013 and lengthen the amount of time until the next Aqua Pennsylvania rate case is filed. As a result of the Pennsylvania rate order, income tax benefits reduced the Company's current income tax expense and increased net income by $69,048 in 2014, $72,944 in 2015, and $78,530 in 2016. The Company recognized a tax deduction on its 2012 Federal tax return of $380,000 for qualifying capital expenditures made prior to 2012, and based on the settlement agreement, beginning in 2013, the Company began to amortize 1/10th of these expenditures or $38,000 annually, which reduced income tax expense and increased the Company's net income by $16,734. In accordance with the settlement agreement, this amortization is expected to reduce income tax expense during periods when qualifying parameters are met. During 2013, our Ohio and North Carolina operating divisions implemented this change in tax accounting method. These divisions currently do not employ a method of accounting that provides for a reduction in current income taxes as a result of the recognition of income tax benefits, and as such the change in the Company's tax method of accounting in these operating divisions has no impact on our effective income tax rate.

The deduction for qualifying utility asset improvements is anticipated to continue in 2017 and beyond. Our 2017 earnings will be impacted by the following factors in Aqua Pennsylvania: the deduction for qualifying utility asset improvements in 2017 is expected to reduce current income tax expense and the ten year amortization of the qualifying capital expenditures made prior to 2012 is also expected to reduce current income tax expense; offset by the effect of regulatory lag.

Acquisitions

During the past five years, we have expended cash of $189,273 and issued 439,943 shares of common stock, valued at $12,845 at the time of acquisition, related to the acquisition of utility systems, both water and wastewater utilities, as well as investments in supplying raw water to the natural gas drilling industry.

In January 2016, we acquired the water and wastewater utility system assets of Superior Water Company, Inc., which provided public water service to approximately 3,900 customers in portions of Berks, Chester, and Montgomery counties in Pennsylvania. The total purchase price for the utility system was $16,750, which consisted of the issuance of 439,943 shares of the Company's common stock and $3,905 in cash. Additionally, during 2016, we completed 18 acquisitions of water and wastewater utility systems for $5,518 in cash in eight of the states in which we operate in.

In April 2015, we acquired the water and wastewater utility system assets of North Maine Utilities, located in the Village of Glenview, Illinois. The total purchase price consisted of $23,079 in cash. Additionally, during 2015, we completed 14 acquisitions of water and wastewater utility systems for $5,210 in cash in six of the states in which we operate.

During 2014, we completed 16 acquisitions of water and wastewater utility systems for $10,530 in cash in seven of the states in which we operate. Further, in 2014, we acquired two market-based businesses that specialized in inspecting, cleaning and repairing storm and sanitary sewer lines, as well as providing water distribution system services and training to waterworks operators. The total purchase price in aggregate was $4,810 and both these businesses were subsequently sold in November 2016 and January 2017.

During 2013, we completed 15 acquisitions of water and wastewater utility systems for $14,997 in cash in four of the states in which we operate.

As part of the Company's growth-through-acquisition strategy, in July 2011, the Company entered into a definitive agreement with American Water to purchase all of the stock of the subsidiary that held American Water's regulated water and wastewater operations in Ohio. American Water's Ohio operations served approximately 59,000 customers. On May 1, 2012, the Company completed its acquisition of American Water's water and wastewater operations in Ohio. The total purchase price at closing consisted of $102,154 in cash plus specific assumed liabilities, including debt of $14,281, as adjusted pursuant to the purchase agreement based on book value at closing. The transaction has been accounted for as a business combination. The Ohio acquisition was financed primarily from the proceeds from the January 1, 2012 sale of our Maine subsidiary, the May 1, 2012 sale of our New York subsidiary, and by the issuance of long-term and/or short-term debt. In addition to our Ohio acquisition, during 2012, we completed 16 acquisitions of water and wastewater utility systems for $19,094 in cash in six of the states in which we operate. We included the operating results of these acquisitions in our consolidated financial statements beginning on the respective acquisition dates.

We continue to pursue the acquisition of water and wastewater utility systems, and explore other utility acquisitions that may be in a new state. Our typical acquisitions are expected to be financed with short-term debt with subsequent repayment from the proceeds of long-term debt, retained earnings, or equity issuances.

Joint Venture

In September 2011, one of our subsidiaries entered into a joint venture with a firm that operates natural gas pipelines and processing plants for the construction and operation of a private pipeline system to supply raw water to natural gas well drilling operations in the Marcellus Shale in north-central Pennsylvania (the "Joint Venture"). We own 49% of the Joint Venture. The initial 18-mile pipeline commenced operations in 2012. The initial pipeline system was expanded for an additional 38 miles with a permitted intake on the Susquehanna River, which extended the pipeline to additional drillers. The total cost of this pipeline was $109,000. The Joint Venture has entered into water supply contracts with natural gas drilling companies. As of December 31, 2016, our capital contributions since inception totaled $53,643 in cash. This investment has been financed through the issuance of long-term debt. Our 49% investment in the Joint Venture is as an unconsolidated affiliate and is accounted for under the equity method of accounting. Our investment is carried at cost, including capital contributions or distributions and our equity in earnings and losses since the commencement of the system's operations. In the fourth quarter of 2015 an impairment charge was recognized by the joint venture on its long-lived assets, of which the Company's share totaled $32,975 ($21,433 after-tax), representing our share of the noncash impairment charge as further described in Note 1 – *Summary of Significant Accounting Policies – Investment in Joint Venture* in this Annual Report.

Dispositions

We routinely review and evaluate areas of our business and operating divisions and, over time, may sell utility systems or portions of systems. In 2016, the Company sold two business units within Aqua Resources, which resulted in total proceeds of $4,459, and recognized a net loss of $543. In 2013 and 2012, in accordance with our strategy to focus our resources on states where we have critical mass to improve our economies of scale and expect future economic growth, we sold water and wastewater systems in the following states: Florida, New York, and Maine. With respect to the sale of our systems in New York and the sale of our systems in Missouri to American Water, we acquired additional utility systems from American Water in Ohio and in Texas. Additionally, in March, 2014, we completed the sale of our wastewater treatment facility in Georgia.

In December 2014, we completed the sale of our water utility system in southwest Allen County Indiana to the City of Fort Wayne, Indiana for $67,011, which is comprised of $50,100 in addition to $16,911 the city initially paid the Company towards its water and wastewater system assets in the northern part of Fort Wayne in 2008. We recognized a gain on sale of $29,210 ($17,611 after-tax) in the fourth quarter of 2014. In addition, as a result of this transaction, Aqua Indiana will expand its sewer customer base by accepting new wastewater flows from the City. Refer to Note 3 – *Discontinued Operations and Other Disposition* in this Annual Report for further information on this sale.

In March, April, and December 2013, through five separate sales transactions, we completed the sale of our water and wastewater utility systems in Florida, which concluded our regulated operations in Florida. The Company received total net proceeds from these sales of $88,934, and recognized a gain on sale of $21,178 ($13,766 after-tax).
In June 2013, the Company sold a water and wastewater utility system in Texas for net proceeds of $3,400. The sale resulted in the recognition of a gain on sale of these assets, net of expenses, of $1,025 ($615 after-tax). The utility system represented approximately 0.04% of the Company's total assets.

In July 2011, the Company entered into a definitive agreement with American Water to sell its operations in New York for its book value at closing plus specific assumed liabilities, including debt of approximately $23,000. On May 1, 2012, the Company completed the sale for net proceeds of $36,688 in cash as adjusted pursuant to the sale agreement based on book value at closing. The Company's New York operations served approximately 51,000 customers. The sale of our New York operations concluded our regulated operations in New York. The proceeds were used to finance a portion of our acquisition of American Water's Ohio subsidiary, pay-down a portion of our short-term debt, and other general corporate purposes.

In July 2011, the Company entered into a definitive agreement with Connecticut Water Service, Inc. to sell its operations in Maine, which served approximately 16,000 customers, for cash at closing plus specific assumed liabilities, including debt of $17,364. On January 1, 2012, we completed the sale for net proceeds of $36,870, and recognized a gain on sale of $17,699 ($10,821 after-tax). The sale of our Maine operations concluded our regulated operations in Maine. The proceeds were used to finance a portion of our acquisition of American Water's Ohio subsidiary, pay-down a portion of our short-term debt, and other general corporate purposes.

Despite these transactions, one of our primary strategies continues to be to acquire additional utility systems, to maintain our existing systems where there is a strategic business benefit, and to actively oppose unilateral efforts by municipal governments to acquire any of our operations.

Sources of Capital
Since net operating cash flow plus advances and contributions in aid of construction have not been sufficient to fully fund cash requirements, we issued $1,335,239 of long-term debt and obtained other short-term borrowings during the past five years. At December 31, 2016, we have a $250,000 long-term revolving credit facility that expires in February 2021, of which $17,561 was designated for letter of credit usage, $207,439 was available for borrowing and $25,000 of borrowings were outstanding at December 31, 2016. In addition, we have short-term lines of credit of $135,500, of which $128,965 was available as of December 31, 2016. These short-term lines of credit are subject to renewal on an annual basis. Although we believe we will be able to renew these facilities, there is no assurance that they will be renewed, or what the terms of any such renewal will be.

Our consolidated balance sheet historically has had a negative working capital position, whereby routinely our current liabilities exceed our current assets. Management believes that internally-generated funds along with existing credit facilities and the proceeds from the issuance of long-term debt will be adequate to provide sufficient working capital to maintain normal operations and to meet our financing requirements for at least the next twelve months.

Our loan and debt agreements require us to comply with certain financial covenants, which among other things, subject to specific exceptions, limit the Company's ratio of consolidated total indebtedness to consolidated total capitalization, and require a minimum level of earnings coverage over interest expense. During 2016, we were in compliance with our debt covenants under our credit facilities. Failure to comply with our debt covenants could result in an event of default, which

could result in us being required to repay or finance our borrowings before their due date, possibly limiting our future borrowings, and increasing our borrowing costs.

The Company has a universal shelf registration statement, which was filed with the Securities and Exchange Commission, ("SEC") on February 27, 2015, which allows for the potential future offer and sale by us, from time to time, in one or more public offerings, of an indeterminate amount of our common stock, preferred stock, debt securities, and other securities specified therein at indeterminate prices. The Company's Board of Directors has authorized the Company to issue up to $500,000 of our common stock, preferred stock, debt securities, and other securities specified therein under this universal shelf registration statement. The Company has not issued any securities to date under this universal shelf registration statement.

In addition, we have a shelf registration statement, which was filed with the SEC on February 27, 2015, to permit the offering from time to time of an aggregate of $500,000 of our common stock and shares of preferred stock in connection with acquisitions. During 2016, we issued 439,943 shares of common stock totaling $12,845 to acquire a water system. The balance remaining available for use under the acquisition shelf registration as of December 31, 2016 is $487,155.

We will determine the form and terms of any securities issued under the universal shelf registration statement and the acquisition shelf registration statement at the time of issuance.

We offer a Dividend Reinvestment and Direct Stock Purchase Plan (the "Plan") that provides a convenient and economical way to purchase shares of the Company. Under the direct stock purchase portion of the Plan, shares are issued throughout the year. The dividend reinvestment portion of the Plan offers a five percent discount on the purchase of shares of common stock with reinvested dividends. As of the December 2016 dividend payment, holders of 10.7% of the common shares outstanding participated in the dividend reinvestment portion of the Plan. The shares issued under the Plan are either original issue shares or shares purchased by the Company's transfer agent in the open-market. During the past five years, we have sold 1,218,407 original issue shares of common stock for net proceeds of $25,093 through the dividend reinvestment portion of the Plan, and we used the proceeds to invest in our operating subsidiaries, to repay short-term debt, and for general corporate purposes. In 2016, 2015, and 2014, 484,645, 535,439, and 558,317 shares of common stock were purchased under the dividend reinvestment portion of the Plan by the Company's transfer agent in the open-market for $14,916, $14,380, and $14,148, respectively.

The Company's Board of Directors has authorized us to repurchase our common stock, from time to time, in the open market or through privately negotiated transactions. In 2014, we repurchased 560,000 shares of our common stock in the open market for $13,280. In December 2014, the Company's Board of Directors authorized a share buyback program of up to 1,000,000 shares to minimize share dilution through timely and orderly share repurchases. In December 2015, the Company's Board of Directors added 400,000 shares to this program. In 2016, we did not repurchase any shares of our common stock in the open market under this program. In 2015, we repurchased 805,000 shares of our common stock in the open market for $20,502. This program expired on December 31, 2016.

Off-Balance Sheet Financing Arrangements

We do not engage in any off-balance sheet financing arrangements. We do not have any interest in entities referred to as variable interest entities, which includes special purpose entities and other structured finance entities.

Contractual Obligations

The following table summarizes our contractual cash obligations as of December 31, 2016:

		Payments Due By Period			
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt	$ 1,910,633	$ 150,671	$ 193,532	$ 111,263	$ 1,455,167
Interest on fixed-rate, long-term debt (1)	1,392,112	80,878	149,103	132,477	1,029,654
Operating leases (2)	20,610	1,713	2,922	2,460	13,515
Unconditional purchase obligations (3)	38,964	7,658	9,693	8,026	13,587
Other purchase obligations (4)	72,572	72,572	-	-	-
Pension plan obligation (5)	15,421	15,421	-	-	-
Other obligations (6)	33,880	22,153	2,201	2,199	7,327
Total	$ 3,484,192	$ 351,066	$ 357,451	$ 256,425	$ 2,519,250

(1) Represents interest payable on fixed rate, long-term debt. Amounts reported may differ from actual due to future refinancing of debt.

(2) Represents operating leases that are noncancelable, before expiration, for the lease of motor vehicles, buildings, land and other equipment.

(3) Represents our commitment to purchase minimum quantities of water as stipulated in agreements with other water purveyors. We use purchased water to supplement our water supply, particularly during periods of peak customer demand. Our actual purchases may exceed the minimum required levels.

(4) Represents an approximation of the open purchase orders for goods and services purchased in the ordinary course of business.

(5) Represents contributions to be made to pension plan.

(6) Represents expenditures estimated to be required under legal and binding contractual obligations.

In addition to these obligations, we pay refunds on customers' advances for construction over a specific period of time based on operating revenues related to developer-installed water mains or as new customers are connected to and take service from such mains. After all refunds are paid, any remaining balance is transferred to contributions in aid of construction. The refund amounts are not included in the above table because the refund amounts and timing are dependent upon several variables, including new customer connections, customer consumption levels and future rate increases, which cannot be accurately estimated. Portions of these refund amounts are payable annually through 2026 and amounts not paid by the contract expiration dates become non-refundable.

In addition to the obligations disclosed in the contractual obligations table above, we have uncertain tax positions of $28,099. Although we believe our tax positions comply with applicable law, we have made judgments as to the sustainability of each uncertain tax position based on its technical merits. Due to the uncertainty of future cash outflows, if any, associated with our uncertain tax positions, we are unable to make a reasonable estimate of the timing or amounts that may be paid. See Note 7 – *Income Taxes* in this Annual Report for further information on our uncertain tax positions.

We will fund these contractual obligations with cash flows from operations and liquidity sources held by or available to us.

The Company is routinely involved in legal matters, including both asserted and unasserted legal claims, during the ordinary course of business. See Note 9 – *Commitments and Contingencies* in this Annual Report for a discussion of the Company's legal matters. It is not always possible for management to make a meaningful estimate of the potential loss or range of loss associated with such litigation. Also, unanticipated changes in circumstances and/or revisions to the assessed probability of the outcomes of legal matters could result in expenses being incurred in future periods as well as an increase in actual cash required to resolve the legal matter.

Capitalization

The following table summarizes our capitalization during the past five years:

December 31,	2016	2015	2014	2013	2012
Long-term debt (1)	50.8%	50.8%	49.4%	50.3%	53.4%
Aqua America stockholders' equity	49.2%	49.2%	50.6%	49.7%	46.6%
	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Includes current portion, as well as our borrowings under a variable rate revolving credit agreement of $25,000 at December 31, 2016, $60,000 at December 31, 2015, $72,000 at December 31, 2014, $0 at December 31, 2013, and $100,000 at December 31, 2012.

Over the past five years, the changes in the capitalization ratios primarily resulted from the issuance of common stock, the issuance of debt to finance our acquisitions and capital program, growth in net income, and the declaration of dividends.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial condition and results of operations are impacted by the methods, assumptions, and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to our financial condition or results of operations, and require estimates or other judgments of matters of uncertainty. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the financial statements. We believe our most critical accounting policies include revenue recognition, the use of regulatory assets and liabilities, the valuation of our long-lived assets, which consist primarily of utility plant in service, regulatory assets, and goodwill, our accounting for post-retirement benefits, and our accounting for income taxes. We have discussed the selection and development of our critical accounting policies and estimates with the Audit Committee of the Board of Directors.

Revenue Recognition ─ Our utility revenues recognized in an accounting period include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the last billing to the end of the accounting period. The estimated usage is based on our judgment and assumptions; our actual results could differ from these estimates, which would result in operating revenues being adjusted in the period that the revision to our estimates is determined.
In Virginia, we commence the billing of our utility customers, under new rates, upon authorization from the respective utility commission and before the final commission rate order is issued. The revenue recognized reflects an estimate based on our judgment of the final outcome of the commission's ruling. We monitor the applicable facts and circumstances regularly, and revise the estimate as required. The revenue billed and collected prior to the final ruling is subject to refund based on the commission's final ruling.

Regulatory Assets and Liabilities ─ We defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the rate-making process in a period different from when the costs and credits were incurred. These deferred amounts, both assets and liabilities, are then recognized in the income statement in the same period that they are reflected in our rates charged for water or wastewater service. In the event that our assessment as to the probability of the inclusion in the rate-making process is incorrect, the associated regulatory asset or liability would be adjusted to reflect the change in our assessment or change in regulatory approval.

Valuation of Long-Lived Assets, Goodwill and Intangible Assets ─ We review our long-lived assets for impairment, including utility plant in service and investment in joint venture. We also review regulatory assets for the continued application of the Financial Accounting Standards Board's ("FASB") accounting guidance for regulated operations. Our review determines whether there have been changes in circumstances or events, such as regulatory disallowances, or abandonments, that have occurred that require adjustments to the carrying value of these assets. Adjustments to the carrying value of these assets would be made in instances where their inclusion in the rate-making process is unlikely. For utility plant in service, we would recognize an impairment loss for any amount disallowed by the respective utility commission. For our equity method investment in joint venture, the Company evaluates whether it has experienced a decline in the value of its investment that is other than temporary in nature. We would recognize an impairment loss if the fair value of our investment is less than the carrying amount of the investment, and the decline in value is considered other than temporary. Additionally, the Company would recognize its share of an impairment loss if the joint venture determines that the carrying amount of the joint venture's assets exceeds the sum of the joint venture's undiscounted estimated cash flows.

Our long-lived assets, which consist primarily of utility plant in service, regulatory assets and investment in joint venture, are reviewed for impairment when changes in circumstances or events occur. These circumstances or events could include a decline in the market value or physical condition of a long-lived asset, an adverse change in the manner in which long-lived assets are used or planned to be used, a change in historical trends, operating cash flows associated with the long-lived assets, changes in macroeconomic conditions, industry and market conditions, or overall financial performance. When these circumstances or events occur, we determine whether it is more likely than not that the fair value of those assets is less than their carrying amount. If we determine that it is more likely than not (that is, the likelihood of more than 50 percent), we would recognize an impairment charge if it is determined that the carrying amount of an asset exceeds the sum of the undiscounted estimated cash flows. In this circumstance, we would recognize an impairment

charge equal to the difference between the carrying amount and the fair value of the asset. Fair value is estimated to be the present value of future net cash flows associated with the asset, discounted using a discount rate commensurate with the risk and remaining life of the asset. This assessment requires significant management judgment and estimates that are based on budgets, general strategic business plans, historical trends and other data and relevant factors. These estimates include significant inherent uncertainties, since they involve forecasting future events. If changes in circumstances or events occur, or estimates and assumptions that were used in this review are changed, we may be required to record an impairment charge on our long-lived assets.

We have an investment in a joint venture, for which we own 49%, and use the equity method of accounting to account for this joint venture. The joint venture operates a private pipeline system to supply raw water to natural gas well drilling operations in the Marcellus Shale in north central Pennsylvania. In the fourth quarter of 2015, the joint venture recognized an impairment charge on its long-lived assets, of which the Company's share totaled $32,975 ($21,433 after-tax), representing our share of the noncash impairment charge. Refer to Note 1 – *Summary of Significant Accounting Policies – Property, Plant and Equipment and Depreciation*, and *Investment in Joint Venture* in this Annual Report for additional information regarding the review of long-lived assets for impairment. See also *Consolidated Results – Equity (Earnings) Loss in Joint Venture* above in this Annual Report.

We test the goodwill attributable for each of our reporting units for impairment at least annually on July 31, or more often, if circumstances indicate a possible impairment may exist. When testing goodwill for impairment, we may assess qualitative factors, including macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, and entity specific events, for some or all of our reporting units to determine whether it's more likely than not that the fair value of a reporting unit is less than its carrying amount. Alternatively, we may bypass this qualitative assessment for some of our reporting units and perform a quantitative goodwill impairment test by determining the fair value of a reporting unit based on a discounted cash flow analysis. If we perform a quantitative test and determine that the fair value of a reporting unit is less than its carrying amount, we would determine the reporting unit's implied fair value of its goodwill and compare it with the carrying amount of its goodwill to measure such impairment. The assessment requires significant management judgment and estimates that are based on budgets, general strategic business plans, historical trends and other data and relevant factors. If changes in circumstances or events occur, or estimates and assumptions that were used in our impairment test change, we may be required to record an impairment charge for goodwill. Refer to Note 1 – *Summary of Significant Accounting Policies – Goodwill* in this Annual Report for information regarding the results of our annual impairment test.

Accounting for Post-Retirement Benefits ─ We maintain a qualified defined benefit pension plan and plans that provide for post-retirement benefits other than pensions. Accounting for pension and other post-retirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by our employees, mortality, turnover and medical costs. Each assumption is reviewed annually with assistance from our actuarial consultant, who provides guidance in establishing the assumptions. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other post-retirement benefits expense that we recognize.

Our discount rate assumption, which is used to calculate the present value of the projected benefit payments of our post-retirement benefits, was determined by selecting a hypothetical portfolio of high quality corporate bonds appropriate to match the projected benefit payments of the plans. The selected bond portfolio was derived from a universe of Aa-graded corporate bonds, all of which were noncallable (or callable with make-whole provisions), and have at least $50,000 in outstanding value. The discount rate was then developed as the rate that equates the market value of the bonds purchased to the discounted value of the projected benefit payments of the plans. A decrease in the discount rate would increase our post-retirement benefits expense and benefit obligation. After reviewing the hypothetical portfolio of bonds, we selected a discount rate of 4.13% for our pension plan and 4.25% for our other post-retirement benefit plans as of December 31, 2016, which represent a 35 basis-point decrease as compared to the discount rates selected at December 31, 2015, respectively. Our post-retirement benefits expense under these plans is determined using the discount rate as of the

beginning of the year, which was 4.48% for our pension plan and 4.60% for our other-postretirement benefit plans for 2016, and will be 4.13% for our pension plan and 4.25% for our other post-retirement benefit plans for 2017.

Our expected return on plan assets is determined by evaluating the asset class return expectations with our advisors as well as actual, long-term, historical results of our asset returns. The Company's market-related value of plan assets is equal to the fair value of the plans' assets as of the last day of its fiscal year, and is a determinant for the expected return on plan assets, which is a component of post-retirement benefits expense. The allocation of our plans' assets impacts our expected return on plan assets. The expected return on plan assets is based on a targeted allocation of 25% to 75% domestic equities, 0% to 10% international equities, 25% to 50% fixed income, 0% to 5% alternative investments, and 0% to 20% cash and cash equivalents. Our post-retirement benefits expense increases as the expected return on plan assets decreases. We believe that our actual long-term asset allocations on average will approximate our targeted allocations. Our targeted allocations are driven by our investment strategy to earn a reasonable rate of return while maintaining risk at acceptable levels through the diversification of investments across and within various asset categories. For 2016, we used a 7.25% expected return on plan assets assumption which will decrease to 7.00% for 2017.

In October 2014, the Society of Actuaries issued an updated set of mortality tables and a mortality improvement scale. The updated mortality tables extend the assumed life expectancy of participants in defined benefit plans, and the updated mortality improvement scale projects how mortality rates will improve into the future based on anticipated medical innovations and a reduction in unhealthy behaviors. We considered the mortality data at the December 31, 2014 measurement of our post-retirement benefit obligations in relation to our plans' participant population experience and adopted the updated mortality table and mortality improvement scale. Because mortality is a key assumption in developing actuarial estimates, the impact of adopting the mortality data was, an increase in our post-retirement benefit obligation as of December 31, 2014 of $14,400 and an increase in our 2015 net periodic benefit costs of $2,500, of which approximately $900 had an impact on our 2015 post-retirement benefits expense, due to the regulatory treatment of our net periodic benefit costs.

Funding requirements for qualified defined benefit pension plans are determined by government regulations and not by accounting pronouncements. In accordance with funding rules and our funding policy, during 2017 our pension contribution is expected to be $15,421. Future years' contributions will be subject to economic conditions, plan participant data and the funding rules in effect at such time as the funding calculations are performed, though we expect future changes in the amount of contributions and expense recognized to be generally included in customer rates.

Accounting for Income Taxes — We estimate the amount of income tax payable or refundable for the current year and the deferred income tax liabilities and assets that results from estimating temporary differences resulting from the treatment of specific items, such as depreciation, for tax and financial statement reporting. Generally, these differences result in the recognition of a deferred tax asset or liability on our consolidated balance sheet and require us to make judgments regarding the probability of the ultimate tax impact of the various transactions we enter into. Based on these judgments, we may record tax reserves or adjustments to valuation allowances on deferred tax assets to reflect the expected realization of future tax benefits. Actual income taxes could vary from these estimates and changes in these estimates can increase income tax expense in the period that these changes in estimates occur.

Our determination of what qualifies as a capital cost versus a tax deduction, for qualifying utility asset improvements, as it relates to our income tax accounting method change beginning in 2012, is subject to subsequent adjustment as well as IRS audits, changes in income tax laws, including regulations regarding tax-basis depreciation as it applies to our capital expenditures, or qualifying utility asset improvements, the expiration of a statute of limitations, or other unforeseen matters could impact the tax benefits that have already been recognized. We establish reserves for uncertain tax positions based upon management's judgment as to the sustainability of these positions. These accounting estimates related to the uncertain tax position reserve require judgments to be made as to the sustainability of each uncertain tax position based on its technical merits. We believe our tax positions comply with applicable law and that we have adequately recorded reserves as required. However, to the extent the final tax outcome of these matters is different than our estimates recorded, we would then need to adjust our tax reserves which could result in additional income tax expense or benefits in the period that this information is known.

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

We describe the impact of recent accounting pronouncements in Note 1 – *Summary of Significant Accounting Policies* in this Annual Report.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. The exposure to changes in interest rates is a result of financings through the issuance of fixed rate long-term debt. Such exposure is typically related to financings between utility rate increases, since generally our rate increases include a revenue level to allow recovery of our current cost of capital. Interest rate risk is managed through the use of a combination of long-term debt, which is at fixed interest rates, and short-term debt, which is at floating interest rates. As of December 31, 2016, the debt maturities by period, in thousands of dollars, and the weighted average interest rate for long-term debt are as follows:

	2017	2018	2019	2020	2021	Thereafter	Total	Fair Value
Long-term debt:								
Fixed rate	$ 150,671	$ 103,902	$ 89,630	$ 49,421	$ 36,842	$ 1,455,167	$ 1,885,633	$ 1,993,933
Variable rate	-	-	-	-	25,000	-	25,000	25,000
Total	$ 150,671	$ 103,902	$ 89,630	$ 49,421	$ 61,842	$ 1,455,167	$ 1,910,633	$ 2,018,933
Weighted average interest rate*	4.04%	4.25%	4.94%	5.07%	4.32%	4.30%		

*Weighted average interest rate of 2021 long-term debt maturity is as follows: fixed rate debt of 5.34% and variable rate debt of 2.79%.

From time to time, we make investments in marketable equity securities. As a result, we are exposed to the risk of changes in equity prices for the "available-for-sale" marketable equity securities. As of December 31, 2016, we have assets of, in thousands of dollars, $17,072 that are classified as "available-for-sale" securities to fund our deferred compensation plan liability. The market risk of these assets is borne by the participants in the deferred compensation plan.

Item 8. *Financial Statements and Supplementary Data*

Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Aqua America, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of net income, of comprehensive income, of capitalization, of equity and of cash flows present fairly, in all material respects, the financial position of Aqua America, Inc. and its subsidiaries at December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016 based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
February 24, 2017

AQUA AMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands of dollars, except per share amounts)

December 31, 2016 and 2015

	2016	2015
Assets		
Property, plant and equipment, at cost	$ 6,509,117	$ 6,088,011
Less: accumulated depreciation	1,507,502	1,399,086
Net property, plant and equipment	5,001,615	4,688,925
Current assets:		
Cash and cash equivalents	3,763	3,229
Accounts receivable and unbilled revenues, net	97,394	99,146
Inventory, materials and supplies	12,961	12,414
Prepayments and other current assets	12,804	11,802
Assets held for sale	1,728	1,779
Total current assets	128,650	128,370
Regulatory assets	948,647	830,118
Deferred charges and other assets, net	30,845	28,878
Investment in joint venture	7,026	7,716
Goodwill	42,208	33,866
Total assets	$ 6,158,991	$ 5,717,873
Liabilities and Equity		
Aqua America stockholders' equity:		
Common stock at $.50 par value, authorized 300,000,000 shares, issued 180,311,345 and 179,363,660 in 2016 and 2015	$ 90,155	$ 89,682
Capital in excess of par value	797,513	773,585
Retained earnings	1,032,844	930,061
Treasury stock, at cost, 2,916,969 and 2,819,569 shares in 2016 and 2015	(71,113)	(68,085)
Accumulated other comprehensive income	669	687
Total stockholders' equity	1,850,068	1,725,930
Long-term debt, excluding current portion	1,759,962	1,743,612
Less: debt issuance costs	22,357	23,165
Long-term debt, excluding current portion, net of debt issuance costs	1,737,605	1,720,447
Commitments and contingencies (See Note 9)	-	-
Current liabilities:		
Current portion of long-term debt	150,671	35,593
Loans payable	6,535	16,721
Accounts payable	59,872	56,452
Accrued interest	18,367	12,651
Accrued taxes	25,607	21,887
Other accrued liabilities	40,484	49,895
Total current liabilities	301,536	193,199
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	1,269,253	1,118,923
Customers' advances for construction	91,843	86,934
Regulatory liabilities	250,635	259,507
Other	115,583	100,498
Total deferred credits and other liabilities	1,727,314	1,565,862
Contributions in aid of construction	542,468	512,435
Total liabilities and equity	$ 6,158,991	$ 5,717,873

See accompanying notes to consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF NET INCOME

(In thousands, except per share amounts)

Years ended December 31, 2016, 2015, and 2014

	2016	2015	2014
Operating revenues	$ 819,875	$ 814,204	$ 779,903
Operating costs and expenses:			
Operations and maintenance	304,897	309,310	288,556
Depreciation	130,987	125,290	123,054
Amortization	2,021	3,447	3,481
Taxes other than income taxes	56,385	55,057	50,453
Total operating expenses	494,290	493,104	465,544
Operating income	325,585	321,100	314,359
Other expense (income):			
Interest expense, net	80,594	76,536	76,397
Allowance for funds used during construction	(8,815)	(6,219)	(5,134)
(Gain) loss on sale of other assets	(378)	(468)	4
Gain on extinguishment of debt	-	(678)	-
Equity (earnings) loss in joint venture	(976)	35,177	3,989
Income from continuing operations before income taxes	255,160	216,752	239,103
Provision for income taxes	20,978	14,962	25,219
Income from continuing operations	234,182	201,790	213,884
Discontinued operations:			
Income from discontinued operations before income taxes	-	-	32,155
Provision for income taxes	-	-	12,800
Income from discontinued operations	-	-	19,355
Net income	$ 234,182	$ 201,790	$ 233,239
Income from continuing operations per share:			
Basic	$ 1.32	$ 1.14	$ 1.21
Diluted	$ 1.32	$ 1.14	$ 1.20
Income from discontinued operations per share:			
Basic	$ -	$ -	$ 0.11
Diluted	$ -	$ -	$ 0.11
Net income per common share:			
Basic	$ 1.32	$ 1.14	$ 1.32
Diluted	$ 1.32	$ 1.14	$ 1.31
Average common shares outstanding during the period:			
Basic	177,273	176,788	176,864
Diluted	177,846	177,517	177,763
Cash dividends declared per common share	$ 0.7386	$ 0.686	$ 0.634

See accompanying notes to consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of dollars)

Years ended December 31, 2016, 2015, and 2014

	2016	2015	2014
Net income	$ 234,182	$ 201,790	$ 233,239
Other comprehensive income, net of tax:			
Unrealized holding (loss) gain on investments, net of tax (benefit) expense of $21, $(53), and $104 for the years ended December 31, 2016, 2015, and 2014, respectively	39	(101)	193
Reclassification adjustment for loss (gain) reported in net income, net of tax (benefit) expense of $30 and $(134) for the twelve months ended December 31, 2016 and 2014, respectively (1)	(57)	-	249
Comprehensive income	$ 234,164	$ 201,689	$ 233,681

See accompanying notes to consolidated financial statements.

(1) Amount of pre-tax loss (gain) of $(87) and $383 reclassified from accumulated other comprehensive income to loss (gain) on sale of other assets on the consolidated statements of net income for the years ended December 31, 2016 and 2014, respectively.

AQUA AMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CAPITALIZATION

(In thousands of dollars, except per share amounts)

December 31, 2016 and 2015

		2016	2015
Aqua America stockholders' equity:			
Common stock, $.50 par value		$ 90,155	$ 89,682
Capital in excess of par value		797,513	773,585
Retained earnings		1,032,844	930,061
Treasury stock, at cost		(71,113)	(68,085)
Accumulated other comprehensive income		669	687
Total stockholders' equity		1,850,068	1,725,930
Long-term debt of subsidiaries (substantially secured by utility plant):			
Interest Rate Range	Maturity Date Range		
0.00% to 0.99%	2023 to 2033	4,661	5,148
1.00% to 1.99%	2019 to 2035	15,539	20,811
2.00% to 2.99%	2024 to 2031	19,668	19,167
3.00% to 3.99%	2019 to 2056	381,944	297,275
4.00% to 4.99%	2020 to 2054	487,318	487,093
5.00% to 5.99%	2017 to 2043	213,078	221,435
6.00% to 6.99%	2017 to 2036	52,985	52,964
7.00% to 7.99%	2022 to 2027	33,066	33,762
8.00% to 8.99%	2021 to 2025	6,565	14,502
9.00% to 9.99%	2018 to 2026	26,400	27,100
10.00% to 10.99%	2018	6,000	6,000
		1,247,224	1,185,257
Notes payable to bank under revolving credit agreement, variable rate, due 2021		25,000	60,000
Unsecured notes payable:			
Bank notes at 1.921% and 1.975% due 2017 and 2018		100,000	100,000
Notes at 3.57% and 3.59% due 2027 and 2041		245,000	120,000
Notes ranging from 4.62% to 4.87%, due 2017 through 2024		133,600	144,400
Notes ranging from 5.20% to 5.95%, due 2017 through 2037		159,809	169,548
Total long-term debt		1,910,633	1,779,205
Current portion of long-term debt		150,671	35,593
Long-term debt, excluding current portion		1,759,962	1,743,612
Less: debt issuance costs		22,357	23,165
Long-term debt, excluding current portion, net of debt issuance costs		1,737,605	1,720,447
Total capitalization		$ 3,587,673	$ 3,446,377

See accompanying notes to consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

(In thousands of dollars)

	Common stock	Capital in excess of par value	Retained earnings	Treasury stock	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total
Balance at December 31, 2013	$ 88,964	$ 743,335	$ 729,272	$ (27,082)	$ 346	$ 208	$ 1,535,043
Net income	-	-	233,239	-	-	40	233,279
Purchase of subsidiary shares from noncontrolling interest	-	-	-	-	-	(208)	(208)
Other comprehensive income, net of income tax of $238	-	-	-	-	442	-	442
Dividends	-	-	(112,106)	-	-	-	(112,106)
Repurchase of stock (659,666 shares)	-	-	-	(15,756)	-	-	(15,756)
Equity compensation plan (212,920 shares)	107	(107)	-	-	-	-	-
Exercise of stock options (449,412 shares)	225	7,071	-	-	-	-	7,296
Stock-based compensation	-	6,811	(453)	-	-	-	6,358
Employee stock plan tax benefits	-	1,828	-	-	-	-	1,828
Other	-	(793)	-	-	-	-	(793)
Balance at December 31, 2014	89,296	758,145	849,952	(42,838)	788	40	1,655,383
Net income	-	-	201,790	-	-	-	201,790
Other comprehensive loss, net of income tax benefit of $53	-	-	-	-	(101)	-	(101)
Dividends	-	-	(121,248)	-	-	-	(121,248)
Sale of stock (26,295 shares)	13	664	-	-	-	-	677
Repurchase of stock (981,585 shares)	-	-	-	(25,247)	-	-	(25,247)
Equity compensation plan (321,402 shares)	161	(161)	-	-	-	-	-
Exercise of stock options (424,709 shares)	212	7,328	-	-	-	-	7,540
Stock-based compensation	-	5,860	(433)	-	-	-	5,427
Employee stock plan tax benefits	-	2,602	-	-	-	-	2,602
Other	-	(853)	-	-	-	(40)	(893)
Balance at December 31, 2015	89,682	773,585	930,061	(68,085)	687	-	1,725,930
Net income	-	-	234,182	-	-	-	234,182
Other comprehensive loss, net of income tax benefit of $9	-	-	-	-	(18)	-	(18)
Dividends	-	-	(130,923)	-	-	-	(130,923)
Stock issued for acquisition (439,943 shares)	220	12,625	-	-	-	-	12,845
Sale of stock (47,478 shares)	24	1,364	-		-	-	1,388
Repurchase of stock (97,400 shares)	-	-	-	(3,028)	-	-	(3,028)
Equity compensation plan (231,502 shares)	115	(115)	-	-	-	-	-
Exercise of stock options (228,762 shares)	114	4,146	-	-	-	-	4,260
Stock-based compensation	-	5,390	(476)	-	-	-	4,914
Employee stock plan tax benefits	-	1,329	-	-	-	-	1,329
Other	-	(811)	-	-	-	-	(811)
Balance at December 31, 2016	$ 90,155	$ 797,513	$ 1,032,844	$ (71,113)	$ 669	$ -	$ 1,850,068

See accompanying notes to consolidated financial statements.

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AQUA AMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of dollars)

Years ended December 31, 2016, 2015, and 2014

	2016	2015	2014
Cash flows from operating activities:			
Net income	$ 234,182	$ 201,790	$ 233,239
Income from discontinued operations	-	-	19,355
Income from continuing operations	234,182	201,790	213,884
Adjustments to reconcile income from continuing operations to net cash flows from operating activities:			
Depreciation and amortization	133,008	128,737	126,535
Deferred income taxes	17,250	16,506	31,477
Provision for doubtful accounts	5,505	5,765	5,838
Share-based compensation	5,390	5,860	6,819
Gain on sale of utility system and market-based business unit	(744)	-	-
(Gain) loss on sale of other assets	(378)	(468)	4
Gain on extinguishment of debt	-	(678)	-
Equity (earnings) loss in joint venture	(976)	35,177	3,989
Net change in receivables, inventory and prepayments	(3,974)	(6,520)	(20,299)
Net change in payables, accrued interest, accrued taxes and other accrued liabilities	4,756	(3,469)	470
Change in income tax receivable	-	-	7,873
Other	1,769	(11,906)	(11,702)
Operating cash flows from continuing operations	395,788	370,794	364,888
Operating cash flows used in discontinued operations, net	-	-	(1,100)
Net cash flows from operating activities	395,788	370,794	363,788
Cash flows from investing activities:			
Property, plant and equipment additions, including the debt component of allowance for funds used during construction of $2,220, $1,598, and $1,494	(382,996)	(364,689)	(328,605)
Acquisitions of utility systems and other, net	(9,423)	(28,989)	(14,616)
Release of funds previously restricted for construction activity	-	47	-
Net proceeds from the sale of utility systems and other assets	7,746	648	558
Other	1,464	(1,079)	279
Investing cash flows used in continuing operations	(383,209)	(394,062)	(342,384)
Investing cash flows from discontinued operations, net	-	-	49,883
Net cash flows used in investing activities	(383,209)	(394,062)	(292,501)
Cash flows from financing activities:			
Customers' advances and contributions in aid of construction	7,263	5,904	6,064
Repayments of customers' advances	(3,763)	(3,977)	(4,028)
Net repayments of short-term debt	(10,186)	(1,677)	(18,342)
Proceeds from long-term debt	503,586	560,544	317,699
Repayments of long-term debt	(373,087)	(400,407)	(253,192)
Change in cash overdraft position	(8,076)	(739)	(322)
Proceeds from issuing common stock	1,388	677	-
Proceeds from exercised stock options	4,260	7,540	7,296
Share-based compensation windfall tax benefits	1,332	1,842	1,422
Repurchase of common stock	(3,028)	(25,247)	(15,756)
Dividends paid on common stock	(130,923)	(121,248)	(112,106)
Other	(811)	(853)	(793)
Financing cash flows (used in) from continuing operations	(12,045)	22,359	(72,058)
Financing cash flows used in discontinued operations, net	-	-	(149)
Net cash flows (used in) from financing activities	(12,045)	22,359	(72,207)
Net increase (decrease) in cash and cash equivalents	534	(909)	(920)
Cash and cash equivalents at beginning of year	3,229	4,138	5,058
Cash and cash equivalents at end of year	$ 3,763	$ 3,229	$ 4,138
Cash paid during the year for:			
Interest, net of amounts capitalized	$ 66,067	$ 70,103	$ 72,441
Income taxes	2,739	6,902	4,348
Non-cash investing activities:			
Property, plant and equipment additions purchased at the period end, but not yet paid	$ 35,145	$ 25,612	$ 31,050
Non-cash customer advances for construction	26,234	27,992	43,642

See accompanying notes to consolidated financial statements.

See Note 2 – *Acquisitions,* Note 10 – *Long-term Debt and Loans Payable*, and Note 14 – *Employee Stock and Incentive Plan* for a description of non-cash activities.

Note 1 – *Summary of Significant Accounting Policies*

Nature of Operations ─ Aqua America, Inc. ("Aqua America," the "Company," "we," "our", or "us") is the holding company for regulated utilities providing water or wastewater services concentrated in Pennsylvania, Ohio, Texas, Illinois, North Carolina, New Jersey, Indiana, and Virginia. Our largest operating subsidiary is Aqua Pennsylvania, Inc., which accounted for approximately 52% of our operating revenues and approximately 74% of our net income for 2016. As of December 31, 2016, Aqua Pennsylvania provided water or wastewater services to approximately one-half of the total number of people we serve. Aqua Pennsylvania's service territory is located in the suburban areas north and west of the City of Philadelphia and in 27 other counties in Pennsylvania. The Company's other regulated utility subsidiaries provide similar services in seven other states. In addition, the Company's market-based activities are conducted through Aqua Resources, Inc. and Aqua Infrastructure LLC. Aqua Resources provides water and wastewater services through operating and maintenance contracts with municipal authorities and other parties in close proximity to our utility companies' service territories; and offers, through a third party, water and wastewater line repair service and protection solutions to households. In addition, in 2016, the Company sold the following business units of Aqua Resources, which were reported as assets held for sale in the Company's consolidated balance sheets:

- a business unit which provided liquid waste hauling and disposal services; and
- a business unit which inspected, cleaned and repaired storm and sanitary wastewater lines.

Additionally, in 2016, the Company decided to market for sale a business unit within Aqua Resources, which installs and tests devices that prevent the contamination of potable water, for which the sale was completed in January 2017, and a business unit that repairs and performs maintenance on water and wastewater systems. Theses business units are reported as assets held for sale in the Company's consolidated balance sheets. Aqua Infrastructure provides non-utility raw water supply services for firms in the natural gas drilling industry.

In December 2014, we completed the sale of our water utility system in southwest Allen County, Indiana, which served approximately 13,000 customers, to the City of Fort Wayne, Indiana. The completion of this sale settled the dispute concerning the February 2008 acquisition, by eminent domain, by the City of Fort Wayne, of the northern portion of our water and wastewater utility systems. The operating results, cash flows, and financial position of the Company's water utility system in Fort Wayne, Indiana has been presented in the Company's consolidated financial statements as discontinued operations. Unless specifically noted, the financial information presented in the notes to consolidated financial statements reflects the Company's continuing operations. Refer to Note 3 – *Discontinued Operations and Other Disposition* for further information on this sale.

The company has identified ten operating segments and has one reportable segment named the Regulated segment. The reportable segment is comprised of eight operating segments for our water and wastewater regulated utility companies which are organized by the states where we provide these services. These operating segments are aggregated into one reportable segment since each of the Company's operating segments has the following similarities: economic characteristics, nature of services, production processes, customers, water distribution or wastewater collection methods, and the nature of the regulatory environment. In addition, Aqua Resources and Aqua Infrastructure are not quantitatively significant to be reportable and are included as a component of "Other," in addition to corporate costs that have not been allocated to the Regulated segment and intersegment eliminations.

Regulation ─ Most of the operating companies that are regulated public utilities are subject to regulation by the utility commissions of the states in which they operate. The respective utility commissions have jurisdiction with respect to rates, service, accounting procedures, issuance of securities, acquisitions and other matters. Some of the operating companies that are regulated public utilities are subject to rate regulation by county or city

government. Regulated public utilities follow the Financial Accounting Standards Board's ("FASB") accounting guidance for regulated operations, which provides for the recognition of regulatory assets and liabilities as allowed by regulators for costs or credits that are reflected in current rates or are considered probable of being included in future rates. The regulatory assets or liabilities are then relieved as the cost or credit is reflected in rates.

Use of Estimates in Preparation of Consolidated Financial Statements ─ The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation – The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany accounts and transactions have been eliminated. Certain prior period amounts have been reclassified to conform to the current period presentation of equity (earnings) loss in joint venture in the operating cash flows section of the consolidated statements of cash flows, and the presentation of debt issuance costs on the consolidated balance sheets.

Recognition of Revenues ─ Revenues in our Regulated segment principally include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the latest billing to the end of the accounting period. In addition, the Company's market-based subsidiary Aqua Resources recognizes revenues when services are performed or, for construction of water and wastewater systems, based on the percentage of completion of the project and Aqua Infrastructure recognizes revenues when services are performed. The Company's market-based subsidiaries recognized revenues of $20,091 in 2016, $34,909 in 2015, and $24,189 in 2014.

Property, Plant and Equipment and Depreciation ─ Property, plant and equipment consist primarily of utility plant. The cost of additions includes contracted cost, direct labor and fringe benefits, materials, overheads, and for additions meeting certain criteria, allowance for funds used during construction. Water systems acquired are typically recorded at estimated original cost of utility plant when first devoted to utility service and the applicable depreciation is recorded to accumulated depreciation. The difference between the estimated original cost, less applicable accumulated depreciation, and the purchase price is recorded as goodwill, or as an acquisition adjustment within utility plant as permitted by the applicable regulatory jurisdiction. At December 31, 2016, utility plant includes a net credit acquisition adjustment of $25,683, which is generally being amortized from 2 to 59 years. Amortization of the acquisition adjustments totaled $2,223 in 2016, $2,556 in 2015, and $2,648 in 2014.

Utility expenditures for maintenance and repairs, including major maintenance projects and minor renewals and betterments, are charged to operating expenses when incurred in accordance with the system of accounts prescribed by the utility commissions of the states in which the company operates. The cost of new units of property and betterments are capitalized. Utility expenditures for water main cleaning and relining of pipes are deferred and recorded in net property, plant and equipment in accordance with the FASB's accounting guidance for regulated operations. As of December 31, 2016, $16,239 of these costs have been incurred since the last respective rate proceeding and the Company expects to recover these costs in future rates.

The cost of software upgrades and enhancements are capitalized if they result in added functionality which enable the software to perform tasks it was previously incapable of performing. Information technology costs associated with major system installations, conversions and improvements, such as software training, data conversion and business process reengineering costs, are deferred as a regulatory asset if the Company expects to recover these costs in future rates. If these costs are not deferred, then these costs are charged to operating expenses when

incurred. As of December 31, 2016, $31,686 of these costs have been deferred since the last respective rate proceeding as a regulatory asset, and the deferral is reported as a component of net property, plant and equipment.

When units of utility property are replaced, retired or abandoned, the recorded value thereof is credited to the asset account and such value, together with the net cost of removal, is charged to accumulated depreciation. To the extent the Company anticipates recovery of the cost of removal or other retirement costs through rates after the retirement costs are incurred, a regulatory asset is recorded as those costs are incurred. In some cases, the Company recovers retirement costs through rates during the life of the associated asset and before the costs are incurred. These amounts, which are not yet utilized, result in a regulatory liability being reported based on the amounts previously recovered through customer rates.

The straight-line remaining life method is used to compute depreciation on utility plant. Generally, the straight-line method is used with respect to transportation and mechanical equipment, office equipment and laboratory equipment.

Long-lived assets of the Company, which consist primarily of utility plant in service, regulatory assets, and investment in joint venture, are reviewed for impairment when changes in circumstances or events occur. These circumstances or events could include a disallowance of utility plant in service or regulatory assets by the respective utility commission, a decline in the market value or physical condition of a long-lived asset, an adverse change in the manner in which long-lived assets are used or planned to be used, a change in historical trends, operating cash flows associated with the long-lived assets, changes in macroeconomic conditions, industry and market conditions, or overall financial performance. When these circumstances or events occur, the Company determines whether it is more likely than not that the fair value of those assets is less than their carrying amount. If the Company determines that it is more likely than not (that is, the likelihood of more than 50 percent), the Company would recognize an impairment charge if it is determined that the carrying amount of an asset exceeds the sum of the undiscounted estimated cash flows. In this circumstance, the Company would recognize an impairment charge equal to the difference between the carrying amount and the fair value of the asset. Fair value is estimated to be the present value of future net cash flows associated with the asset, discounted using a discount rate commensurate with the risk and remaining life of the asset. There has been no change in circumstances or events that have occurred that require adjustments to the carrying values of the Company's long-lived assets, except for an impairment charge recognized by the joint venture on its long-lived assets in 2015.

Allowance for Funds Used During Construction ─ The allowance for funds used during construction ("AFUDC") represents the capitalized cost of funds used to finance the construction of utility plant. In general, AFUDC is applied to construction projects requiring more than one month to complete. No AFUDC is applied to projects funded by customer advances for construction, contributions in aid of construction, or applicable state-revolving fund loans. AFUDC includes the net cost of borrowed funds and a rate of return on other funds when used, and is recovered through water rates as the utility plant is depreciated. The amount of AFUDC related to equity funds in 2016 was $6,561, 2015 was $4,621, and 2014 was $3,640. No interest was capitalized by our market-based businesses.

Cash and Cash Equivalents ─ The Company considers all highly liquid investments with an original maturity of three months or less, which are not restricted for construction activity, to be cash equivalents.

The Company had a book overdraft, which represents transactions that have not cleared the bank accounts at the end of the period, for specific disbursement cash accounts of $12,616 and $20,693 at December 31, 2016 and 2015, respectively. The Company transfers cash on an as-needed basis to fund these items as they clear the bank in subsequent periods. The balance of the book overdraft is reported as accounts payable and the change in the book overdraft balance is reported as cash flows from financing activities, due to our ability to fund the overdraft with the Company's credit facility.

Funds Restricted for Construction Activity ─ The proceeds received from specific financings for construction and capital improvement of utility facilities are held in escrow until the designated expenditures are incurred. These amounts are reported as funds restricted for construction activity and are expected to be released over time as the capital projects are funded. As of December 31, 2016 and 2015, the Company did not have any funds restricted for construction activity.

Accounts Receivable ─ Accounts receivable are recorded at the invoiced amounts, which consists of billed and unbilled revenues. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in our existing accounts receivable, and is determined based on historical write-off experience and the aging of account balances. The Company reviews the allowance for doubtful accounts quarterly. Account balances are written off against the allowance when it is probable the receivable will not be recovered. When utility customers request extended payment terms, credit is extended based on regulatory guidelines, and collateral is not required.

Inventories, Materials and Supplies ─ Inventories are stated at cost. Cost is determined using the first-in, first-out method.

Regulatory Assets, Deferred Charges and Other Assets ─ Deferred charges and other assets consist primarily of assets held to compensate employees in the future who participate in the Company' deferred compensation plan and other costs. Other costs, for which the Company has received or expects to receive prospective rate recovery, are deferred as a regulatory asset and amortized over the period of rate recovery in accordance with the FASB's accounting guidance for regulated operations. See Note – 6 *Regulatory Assets and Liabilities* for further information regarding the Company's regulatory assets.

Marketable equity securities are carried on the balance sheet at fair market value, and changes in fair value are included in other comprehensive income.

Investment in Joint Venture – The Company uses the equity method of accounting to account for our 49% investment in a joint venture with a firm in the natural gas industry for the construction and operation of a private pipeline system to supply raw water to natural gas well drilling operations in the Marcellus Shale in north-central Pennsylvania, which commenced operations in 2012. Our initial investment is carried at cost. Subsequently, the carrying amount of our investment is adjusted to reflect capital contributions or distributions, and our equity in earnings or losses since the commencement of the system's operations, as well as a decline in the fair value of our investment. Our share of equity earnings or losses in the joint venture is reported in the consolidated statements of net income as equity (earnings) losses in joint venture. During 2016 and 2015 we received distributions of $1,666 and $441, respectively. For our equity method investment in joint venture, the Company evaluates whether it has experienced a decline in the value of its investment that is other than temporary in nature. We would recognize an impairment loss if the fair value of our investment is less than the carrying amount of the investment, and the decline in value is considered other than temporary. Additionally, the Company would recognize its share of an impairment loss if the joint venture determines that the carrying amount of the joint venture's assets exceeds the sum of the joint venture's undiscounted estimated cash flows.

During the fourth quarter of 2015, the joint venture experienced the following events: a marked decline in natural gas prices, particularly in the fourth quarter of 2015, following a period of steady decline in 2015, a distinguishable reduction in the volume of water sales by the joint venture which led to a lowered forecast in the fourth quarter of 2015 on future water sales volumes by the joint venture, as well as changes in the natural gas industry and market conditions. These market conditions were largely associated with natural gas prices, which sharply declined in the fourth quarter of 2015 and this downturn no longer appeared temporary and instead may be a long-term condition. It was then determined that the carrying amount of the joint venture's long-lived assets

(In thousands of dollars, except per share amounts)

exceeded the sum of the joint venture's undiscounted estimated cash flows, which resulted in the recognition of a noncash impairment charge of $32,975 ($21,433 after-tax) in the fourth quarter of 2015, representing the Company's share of the impairment charge. The impairment charge, on a pre-tax basis, is reported as equity loss in joint venture on the Company's consolidated statements of income. The amount of the impairment charge recognized by the joint venture is equal to the difference between the carrying value and the fair value of the long-lived assets. Fair value is estimated to be the present value of the future net cash flows associated with the assets, discounted using a rate commensurate with the risk and remaining life of the assets.

Goodwill — Goodwill represents the excess cost over the fair value of net tangible and identifiable intangible assets acquired through acquisitions. Goodwill is not amortized but is tested for impairment annually, or more often, if circumstances indicate a possible impairment may exist. When testing goodwill for impairment, we may assess qualitative factors, including macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, and entity specific events, for some or all of our reporting units to determine whether it's more likely than not that the fair value of a reporting unit is less than its carrying amount. Alternatively, we may bypass this qualitative assessment for some of our reporting units and perform a quantitative goodwill impairment test by determining the fair value of a reporting unit based on a discounted cash flow analysis. If we perform a quantitative test and determine that the fair value of a reporting unit is less than its carrying amount, we would determine the reporting unit's implied fair value of its goodwill and compare it with the carrying amount of its goodwill to measure such impairment. The Company tested the goodwill attributable for each of our reporting units for impairment as of July 31, 2016, and concluded that the estimated fair value of each reporting unit, which has goodwill recorded, exceeded the reporting unit's carrying amount, indicating that none of the Company's goodwill was impaired. The following table summarizes the changes in the Company's goodwill:

	Regulated Segment	Other	Consolidated
Balance at December 31, 2014	$ 24,564	$ 6,620	$ 31,184
Goodwill acquired during year	-	12	12
Reclassifications from (to) utility plant acquisition adjustment, net	2,682	-	2,682
Other	-	(12)	(12)
Balance at December 31, 2015	27,246	6,620	33,866
Goodwill acquired during year	10,378		10,378
Reclassifications to utility plant acquisition adjustment	(98)		(98)
Disposition	(159)	(1,232)	(1,391)
Classified as assets held for sale		(547)	(547)
Balance at December 31, 2016	$ 37,367	$ 4,841	$ 42,208

The reclassification of goodwill to utility plant acquisition adjustment results from a mechanism approved by the applicable utility commission. The mechanism provides for the transfer over time, and the recovery through customer rates, of goodwill associated with some acquisitions upon achieving specific objectives. The reclassification from utility plant acquisition adjustment to goodwill represents the purchase price in excess of the fair market value of the net assets acquired, from a prior acquisition, which was originally accounted for as utility plant acquisition adjustment.

The goodwill allocated to a disposition or classified as assets held for sale results from the allocation of goodwill for market-based business units based on their relative fair value as compared to Aqua Resource's fair value.

Income Taxes — The Company accounts for some income and expense items in different time periods for financial and tax reporting purposes. Deferred income taxes are provided on specific temporary differences between the tax basis of the assets and liabilities, and the amounts at which they are carried in the consolidated financial statements. The income tax effect of temporary differences not currently recovered in rates is recorded as deferred taxes with an offsetting regulatory asset or liability. These deferred income taxes are based on the enacted tax rates expected to be in effect when such temporary differences are projected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount more likely than not to be realized. Investment tax credits are deferred and amortized over the estimated useful lives of the related properties. Judgment is required in evaluating the Company's Federal and state tax positions. Despite management's belief that the Company's tax return positions are fully supportable, the Company establishes reserves when it believes that its tax positions are likely to be challenged and it may not fully prevail in these challenges. The Company's provision for income taxes includes interest, penalties and reserves for uncertain tax positions.

In 2012, the Company changed its tax method of accounting for qualifying utility asset improvement costs in Aqua Pennsylvania effective with the tax year ended December 31, 2012 and for prior tax years. The tax accounting method was changed to permit the expensing of qualifying utility asset improvement costs that were previously being capitalized and depreciated for book and tax purposes. This change was implemented in response to a June 2012 rate order issued by the Pennsylvania Public Utility Commission to Aqua Pennsylvania, which provides for a reduction in current income tax expense as a result of the recognition of income tax benefits for qualifying utility asset improvements. This change results in a significant reduction in the effective income tax rate, a reduction in current income tax expense, and reduces the amount of taxes currently payable. For qualifying capital expenditures made prior to 2012, the resulting tax benefits have been deferred as of December 31, 2012 and, in accordance with the rate order, a ten year amortization of the income tax benefits, which reduces future income tax expense, commenced in 2013. During 2013, our Ohio and North Carolina operating divisions implemented this change. These divisions currently do not employ a method of accounting that provides for a reduction in current income taxes as a result of the recognition of income tax benefits, and as such the change in the Company's tax method of accounting in these operating divisions had no impact on the Company's effective income tax rate.

Customers' Advances for Construction and Contributions in Aid of Construction — Water mains, other utility property or, in some instances, cash advances to reimburse the Company for its costs to construct water mains or other utility property, are contributed to the Company by customers, real estate developers and builders in order to extend utility service to their properties. The value of these contributions is recorded as customers' advances for construction. Over time, the amount of non-cash contributed property will vary based on the timing of the contribution of the non-cash property and the volume of non-cash contributed property received in connection with development in our service territories. The Company makes refunds on these advances over a specific period of time based on operating revenues related to the property, or as new customers are connected to and take service from the applicable water main. After all refunds are made, any remaining balance is transferred to contributions in aid of construction. Contributions in aid of construction include direct non-refundable contributions and the portion of customers' advances for construction that become non-refundable.

Based on regulatory conventions in states where the Company operates, generally our subsidiaries depreciate contributed property and amortize contributions in aid of construction at the composite rate of the related property. Contributions in aid of construction and customers' advances for construction are deducted from the Company's rate base for rate-making purposes, and therefore, no return is earned on contributed property.

Stock-Based Compensation — The Company records compensation expense in the financial statements for stock-based awards based on the grant date fair value of those awards. Stock-based compensation expense includes an

estimate for pre-vesting forfeitures and is recognized over the requisite service periods of the awards on a straight-line basis, which is generally commensurate with the vesting term.

Fair Value Measurements – The Company follows the FASB's accounting guidance for fair value measurements and disclosures, which defines fair value and establishes a framework for using fair value to measure assets and liabilities. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1: unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access;

- Level 2: inputs other than Level 1 that are observable, either directly or indirectly, such as quoted market prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in non-active markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or

- Level 3: inputs that are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the valuation techniques used to measure fair value or asset or liability transfers between the levels of the fair value hierarchy for the years ended December 31, 2016 and 2015.

Recent Accounting Pronouncements ─ In August 2016, the FASB issued updated accounting guidance on the classification of certain cash receipts and cash payments in the statement of cash flows, which is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and early adoption is permitted. The Company is currently evaluating the impact of this new standard on its consolidated cash flow statement.

In March 2016, the FASB issued updated accounting guidance on simplifying the accounting for share-based payments, which includes several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The updated guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption available. The Company has evaluated the requirements of the updated guidance and has determined that upon adoption, on January 1, 2017, the Company will recognize a previously unrecognized windfall tax benefit for stock-based compensation of $2,805 ($1,823 after-tax), associated with the Company's 2012 Federal net operating loss, which will be recorded as an adjustment to retained earnings. Additionally, once adopted, income tax benefits in excess of compensation costs or tax deficiencies for share-based compensation will be recorded to our income tax provision, instead of, as was done historically, to stockholder's equity, which will impact our effective tax rate. Lastly, all tax-related cash flows resulting from share-based payments will be reported as operating activities on the statement of cash flows, a change from the historical requirement to present tax benefits as an inflow from financing activities and an outflow from operating activities.

In February 2016, the FASB issued updated accounting guidance on accounting for leases, which requires lessees to establish a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12

months. For income statement purposes, leases will be classified as either operating or finance. Operating leases will result in straight-line expense while finance leases will result in a front-loaded expense pattern. The updated accounting guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption available. The Company is evaluating the requirements of the updated guidance to determine the impact of adoption. Refer to Note 9 – *Commitments and Contingencies* for further information on the Company's leases.

In September 2015, the FASB issued updated accounting guidance on simplifying measurement-period adjustments in business combinations, which eliminates the requirement that an acquirer in a business combination account for measurement-period adjustments retrospectively. Instead, an acquirer will recognize a measurement-period adjustment during the period in which it determines the amount of the adjustment. The updated guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption available. The Company adopted the provisions of this accounting standard, as required on January 1, 2016, and it did not have an impact on its results of operations or financial position.

In April 2015, the FASB issued updated accounting guidance on simplifying the presentation of debt issuance costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. Previously, debt issuance costs were presented in the balance sheet as a deferred charge. The accounting standard is effective for reporting periods beginning after December 15, 2015, and will be applied retrospectively. The Company adopted the provisions of this accounting standard as required on January 1, 2016. The adoption of this standard was applied retrospectively and resulted in the reclassification as of December 31, 2015 of $23,165 from deferred charges and other assets, net to debt issuance costs, which is reported as a reduction to long-term debt.

In August 2014, the FASB issued an accounting standard that will require management to assess an entity's ability to continue as a going concern for each annual and interim reporting period and to provide related footnote disclosures in circumstances in which substantial doubt exists. The accounting standard is effective in the first annual reporting period ending after December 15, 2016. The Company adopted the provisions of this accounting standard for its year ended December 31, 2016, which did not have an impact on its results of operations or financial position.

In May 2014, the FASB issued updated accounting guidance on recognizing revenue from contracts with customers, which outlines a single comprehensive model that an entity will apply to determine the measurement of revenue and timing of recognition. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The updated guidance also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. Additionally, the accounting for contributions in aid of construction may be impacted by the updated accounting guidance if the contributions are determined to be in scope. In July 2015, the FASB approved a one year deferral to the original effective date of this guidance. The updated guidance is effective for annual periods beginning after December 15, 2017, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the updated guidance in each prior reporting period, or (ii) a modified retrospective approach with the cumulative effect of initially adopting the updated guidance recognized through retained earnings at the date of adoption. In 2016, the Company performed an evaluation of the requirements of the updated guidance and based on current interpretations of the updated guidance believes that the impact of adoption may not result in a material change in our measurement of revenue and timing of recognition if contributions in aid of construction is determined to not be in scope. The Company continues to evaluate the impact of adoption if contributions in aid of construction are determined to be in scope. Additionally, we plan to implement the updated guidance using the modified retrospective approach.

Note 2 – *Acquisitions*

Pursuant to the Company's growth-through-acquisition strategy, the Company completed the following acquisitions. In January 2016, the Company acquired Superior Water Company, Inc., which provides public water service to approximately 3,900 customers in portions of Berks, Chester, and Montgomery counties in Pennsylvania. The total purchase price for the utility system was $16,750, which consisted of the issuance of 439,943 shares of the Company's common stock and $3,905 in cash. The purchase price allocation for this acquisition consisted primarily of acquired property, plant and equipment of $25,167, contributions in aid of construction of $16,565, and goodwill of $8,622. Additionally, during 2016 the Company completed 18 acquisitions of water and wastewater utility systems in various states. The total purchase price of these utility systems consisted of $5,518 in cash. The operating revenues included in the consolidated financial statements of the Company during the period owned by the Company for the utility systems acquired in 2016 are $3,809. The pro forma effect of the businesses acquired is not material either individually or collectively to the Company's results of operations.

In April 2015, the Company acquired the water and wastewater utility system assets of North Maine Utilities, located in the Village of Glenview, Illinois serving approximately 7,400 customers. The total purchase price consisted of $23,079 in cash. The purchase price allocation for this acquisition consists primarily of acquired property, plant and equipment. Additionally, in 2015, the Company completed 14 acquisitions of water and wastewater utility systems in various states. The total purchase price of these utility systems consisted of $5,210 in cash. The operating revenues included in the consolidated financial statements of the Company during the period owned by the Company for the utility systems acquired were $10,708 in 2016 and $6,662 in 2015. The pro forma effect of the businesses acquired is not material either individually or collectively to the Company's results of operations.

In 2014, the Company completed 16 acquisitions of water and wastewater utility systems in various states. The total purchase price of these utility systems consisted of $10,530 in cash. Further, in August 2014, the Company acquired a market-based business that specializes in the inspection, cleaning and repair of storm and sanitary sewer lines. The total purchase price consisted of $3,010, of which a total of $810 is contingent upon satisfying certain annual performance targets over a three-year period for which $270 has been paid for completion of the performance targets for year one. Additionally, in December 2014, the Company acquired a market-based business that specializes in providing water distribution system services to prevent the contamination of potable water, including training to waterworks operators. The total purchase price consisted of $1,800, of which $700 was paid in the first quarter of 2015. The operating revenues included in the consolidated financial statements of the Company during the period owned by the Company for these utility systems and market-based businesses were $13,493 in 2016, $19,154 in 2015, and $4,403 in 2014. The decrease in operating revenues is due to the sale of a market-based business unit in 2016. The pro forma effect of the businesses acquired is not material either individually or collectively to the Company's results of operations.

Note 3 – *Discontinued Operations and Other Dispositions*

Discontinued Operations – In December 2014, we completed the sale of our water utility system in southwest Allen County, Indiana to the City of Fort Wayne, Indiana (the "City") for $67,011, which included a payment received in December 2014 of $50,100 in addition to $16,911 the City already paid the Company for the northern portion of our water and wastewater utility systems, which were acquired by the City in February 2008, by eminent domain. We recognized a gain on sale of $29,210 ($17,611 after-tax) in the fourth quarter of 2014. As a result of this transaction, Aqua Indiana will expand its sewer customer base by accepting new wastewater flows from the City.

(In thousands of dollars, except per share amounts)

In September 2012, the Company began to market for sale its non-regulated wastewater treatment facility in Georgia. In March 2014, we completed the sale of our wastewater treatment facility in Georgia, which concluded our operations in this state.

The operating results, cash flows, and financial position of the Company's subsidiaries named above have been presented in the Company's consolidated statements of net income, consolidated statements of cash flow, and consolidated balance sheets as discontinued operations.

A summary of discontinued operations presented in the consolidated statements of net income includes the following:

	Year Ended December 31, 2014
Operating revenues	$ 6,324
Total operating expenses	3,262
Operating income	3,062
Other (income) expense:	
Gain on sale	(29,093)
Other, net	-
Income from discontinued operations before income taxes	32,155
Provision for income taxes	12,800
Income from discontinued operations	$ 19,355

As of December 31, 2016 and 2015 the Company does not have any assets or liabilities of discontinued operations held for sale.

Other Dispositions – The following dispositions have not been presented as discontinued operations in the Company's consolidated financial statements as they do not qualify as discontinued operations, since their disposal does not represent a strategic shift that has a major effect on our operations or financial results. The gains or loss disclosed below are reported in the consolidated statements of net income as a component of operations and maintenance expense. These business units were reported within the Company's market-based subsidiary, Aqua Resources, and were included in "Other" in the Company's segment information.

Dispositions Completed in 2016

In the third quarter of 2016, the Company marketed for sale a business unit which inspects, cleans and repairs storm and sanitary wastewater lines. In November 2016, this business unit was sold for $1,059 in cash and resulted in a loss on sale of $1,081. Further, in December 2015, the Company decided to sell a business unit which provides liquid waste hauling and disposal services. This business unit was reported as assets held for sale in the Company's December 31, 2015 consolidated balance sheet included in this Annual Report. During the second quarter of 2016, this business unit was sold for $3,400 in cash and resulted in a gain on sale of $537.

(In thousands of dollars, except per share amounts)

Dispositions Reported as Assets Held for Sale at December 31, 2016

In the second quarter of 2016, the Company decided to market for sale business units, which install and test devices that prevent the contamination of potable water and repair water and wastewater systems, for which the sale was completed in January 2017, and a business unit that repairs and performs maintenance on water and wastewater systems. These business units are reported within the Company's market-based subsidiary, Aqua Resources. These business units are reported as assets held for sale in the Company's consolidated balance sheets included in this Annual Report.

Note 4 – *Property, Plant and Equipment*

	December 31,		Approximate Range of Useful Lives	Weighted Average Useful Life
	2016	2015		
Utility plant and equipment:				
Mains and accessories	$ 2,898,560	$ 2,696,194	30 - 93 years	77 years
Services, hydrants, treatment plants and reservoirs	1,621,972	1,531,052	5 - 85 years	49 years
Operations structures and water tanks	283,635	263,722	14 - 85 years	47 years
Miscellaneous pumping and purification equipment	733,074	687,472	7 - 90 years	40 years
Meters, data processing, transportation and operating equipment	733,837	684,335	4 - 63 years	25 years
Land and other non-depreciable assets	98,529	98,575	-	-
Utility plant and equipment	6,369,607	5,961,350		
Utility construction work in progress	163,565	144,448	-	-
Net utility plant acquisition adjustment	(25,683)	(24,428)	2 - 59 years	28 years
Non-utility plant and equipment	1,628	6,641	3 - 15 years	6 years
Total property, plant and equipment	$ 6,509,117	$ 6,088,011		

Note 5 – *Accounts Receivable*

	December 31,	
	2016	2015
Billed utility revenue	$ 63,518	$ 56,876
Unbilled revenue	34,635	37,276
Other	6,336	10,867
	104,489	105,019
Less allowance for doubtful accounts	7,095	5,873
Net accounts receivable	$ 97,394	$ 99,146

The Company's utility customers are located principally in the following states: 47% in Pennsylvania, 16% in Ohio, 10% in North Carolina, 8% in Texas, and 8% in Illinois. No single customer accounted for more than one percent of the Company's regulated operating revenues during the years ended December 31, 2016, 2015, and 2014. The following table summarizes the changes in the Company's allowance for doubtful accounts:

	2016	2015	2014
Balance at January 1,	$ 5,873	$ 5,365	$ 4,413
Amounts charged to expense	5,500	5,762	5,838
Accounts written off	(5,410)	(6,513)	(6,120)
Recoveries of accounts written off	1,132	1,259	1,234
Balance at December 31,	$ 7,095	$ 5,873	$ 5,365

(In thousands of dollars, except per share amounts)

Note 6 – *Regulatory Assets and Liabilities*

The regulatory assets represent costs that are probable to be fully recovered from customers in future rates while regulatory liabilities represent amounts that are expected to be refunded to customers in future rates or amounts recovered from customers in advance of incurring the costs. Except for income taxes, regulatory assets and regulatory liabilities are excluded from the Company's rate base and do not earn a return. The components of regulatory assets and regulatory liabilities are as follows:

	December 31, 2016		December 31, 2015	
	Regulatory Assets	Regulatory Liabilities	Regulatory Assets	Regulatory Liabilities
Income taxes	$ 807,952	$ 157,266	$ 699,247	$ 181,067
Utility plant retirement costs	4,986	31,288	6,052	27,604
Post-retirement benefits	119,519	59,882	112,626	50,775
Accrued vacation	1,984	-	1,744	-
Water tank painting	2,111	2,143	303	-
Fair value adjustment of long-term debt assumed in acquisition	3,268	-	3,636	-
Rate case filing expenses and other	8,827	56	6,510	61
	$ 948,647	$ 250,635	$ 830,118	$ 259,507

Items giving rise to deferred state income taxes, as well as a portion of deferred Federal income taxes related to specific differences between tax and book depreciation expense, are recognized in the rate setting process on a cash basis or as a reduction in current income tax expense and will be recovered as they reverse. Amounts include differences that arise between specific utility asset improvement costs capitalized for book and deducted as an expense for tax purposes.

A portion of the regulatory liability for income taxes is related to Aqua Pennsylvania's income tax accounting change for the tax benefits realized on the Company's 2012 tax return, which have not yet reduced current income tax expense due to the ten year amortization period which began in 2013. This amortization was stipulated in a June 2012 rate order issued to Aqua Pennsylvania and is subject to specific parameters being met each year. Beginning in 2013, the Company amortized $38,000, annually, of its deferred income tax benefits, which reduced current income tax expense and increased the Company's net income by $16,734.

The regulatory asset for utility plant retirement costs, including cost of removal, represents costs already incurred that are expected to be recovered in future rates over a five year recovery period. The regulatory liability for utility plant retirement costs represents amounts recovered through rates during the life of the associated asset and before the costs are incurred.

The regulatory asset for accrued vacation represents costs that would otherwise be charged to operations and maintenance expense for vacation that is earned by employees, which is recovered as a cost of service.

The regulatory asset for Post-retirement benefits, which includes pension and other post-retirement benefits, primarily reflects a regulatory asset that has been recorded for the costs that would otherwise be charged to stockholders' equity for the underfunded status of the Company's pension and other post-retirement benefit plans. The Company also has a regulatory asset related to post-retirement benefits costs that represent costs already incurred which are now being recovered in rates over 10 years. The regulatory liability for post-retirement benefits represents costs recovered in rates in excess of post-retirement benefits expense.

(In thousands of dollars, except per share amounts)

Expenses associated with water tank painting are deferred and amortized over a period of time as approved in the regulatory process. Water tank painting costs are generally being amortized over a period ranging from 1 to 20 years. The regulatory liability for water tank painting costs represents amounts recovered through rates and before the costs are incurred.

The Company recorded a fair value adjustment for fixed rate, long-term debt assumed in acquisitions that matures in various years ranging from 2022 to 2029. The regulatory asset or liability results from the rate setting process continuing to recognize the historical interest cost of the assumed debt.

The regulatory asset related to rate case filing expenses and other represents the costs associated with filing for rate increases that are deferred and amortized over periods that generally range from one to five years, and costs incurred by the Company for which it has received or expects to receive rate recovery.

The regulatory asset related to the costs incurred for information technology software projects and water main cleaning and relining projects are described in Note 1 – *Summary of Significant Accounting Policies – Property, Plant and Equipment and Depreciation*.

Note 7 – *Income Taxes*

The provision for income taxes for the Company's continuing operations consists of:

	Years Ended December 31,		
	2016	2015	2014
Current:			
Federal	$ 2,046	$ 2,624	$ (11,296)
State	1,682	(4,168)	5,038
	3,728	(1,544)	(6,258)
Deferred:			
Federal	21,489	12,649	37,500
State	(4,239)	3,857	(6,023)
	17,250	16,506	31,477
Total tax expense	$ 20,978	$ 14,962	$ 25,219

The statutory Federal tax rate is 35% and for states with a corporate net income tax, the state corporate net income tax rates range from 4% to 9.99% for all years presented.

(In thousands of dollars, except per share amounts)

The reasons for the differences between amounts computed by applying the statutory Federal income tax rate to income before income tax expense for the Company's continuing operations are as follows:

	Years Ended December 31,		
	2016	2015	2014
Computed Federal tax expense at statutory rate	$ 89,306	$ 75,863	$ 83,686
Decrease in Federal tax expense related to an income tax accounting change for qualifying utility asset improvement costs	(62,831)	(59,488)	(57,015)
State income taxes, net of Federal tax benefit	(1,662)	(202)	(640)
Increase in tax expense for depreciation expense to be recovered in future rates	199	199	317
Stock-based compensation	(227)	(174)	(168)
Deduction for Aqua America common dividends paid under employee benefit plan	(455)	(456)	(350)
Amortization of deferred investment tax credits	(405)	(421)	(416)
Other, net	(2,947)	(359)	(195)
Actual income tax expense	$ 20,978	$ 14,962	$ 25,219

In December 2012, the Company changed its tax method of accounting for qualifying utility system repairs in Aqua Pennsylvania effective with the tax year ended December 31, 2012 and for prior tax years. The tax accounting method was changed to permit the expensing of qualifying utility asset improvement costs that were previously being capitalized and depreciated for book and tax purposes. This change was implemented in response to a June 2012 rate order issued by the Pennsylvania Public Utility Commission to Aqua Pennsylvania which provides for a reduction in current income tax expense as a result of the flow-through recognition of some income tax benefits due to the income tax accounting change. In 2014, the Company recorded $69,048 of income tax benefits. In 2015, the Company recorded $72,944 of income tax benefits. In 2016, the Company recorded $78,530 of income tax benefits. The Company recognized a tax deduction on its 2012 Federal tax return of $380,000 for qualifying capital expenditures made prior to 2012, and based on the rate order, in 2013, the Company began to amortize 1/10th of these expenditures. In accordance with the rate order, the amortization is expected to reduce current income tax expense during periods when qualifying parameters are met. Beginning in 2013, the Company amortized the qualifying capital expenditures made prior to 2012 and recognized $38,000, annually, of deferred income tax benefits, which reduced current income tax expense and increased the Company's net income by $16,734. The Company's effective income tax rate for 2016, 2015, and 2014, for its continuing operations, was 8.2%, 6.9%, and 10.5%, respectively.

In September 2013, the Department of Treasury and the Internal Revenue Service issued "Guidance Regarding Deduction and Capitalization of Expenditures Related to Tangible Property" which contains standards for determining whether and when a taxpayer must capitalize costs incurred in acquiring, maintaining or improving tangible property. These regulations were effective for the Company's 2014 fiscal year, and the adoption of these regulations did not have a material impact on the Company's consolidated results of operations or consolidated financial position.

The Company establishes reserves for uncertain tax positions based upon management's judgment as to the sustainability of these positions. These accounting estimates related to the uncertain tax position reserve require judgments to be made as to the sustainability of each uncertain tax position based on its technical merits. The Company believes its tax positions comply with applicable law and that it has adequately recorded reserves as required. However, to the extent the final tax outcome of these matters is different than the estimates recorded, the Company would then adjust its tax reserves or unrecognized tax benefits in the period that this information becomes known. The Company has elected to recognize accrued interest and penalties related to uncertain tax positions as income tax expense.

(In thousands of dollars, except per share amounts)

The following table provides the changes in the Company's unrecognized tax benefits:

	2016	2015
Balance at January 1,	$ 28,016	$ 25,292
Additions based on tax position related to the current year	83	2,724
Balance at December 31,	$ 28,099	$ 28,016

The unrecognized tax benefits relate to the income tax accounting change, and the tax position is attributable to a temporary difference. The Company does not anticipate material changes to its unrecognized tax benefits within the next year. As a result of the regulatory treatment afforded by the income tax accounting change in Pennsylvania and despite this position being a temporary difference, as of December 31, 2016 and 2015, $20,674 and $17,777 and, respectively, of these tax benefits would have an impact on the Company's effective income tax rate in the event the Company does sustain all, or a portion, of its tax position.

(In thousands of dollars, except per share amounts)

The following table provides the components of the net deferred tax liability from continuing operations:

	December 31,	
	2016	2015
Deferred tax assets:		
Customers' advances for construction	$ 21,738	$ 27,675
Costs expensed for book not deducted for tax, principally accrued expenses	15,751	15,612
Utility plant acquisition adjustment basis differences	3,114	3,489
Post-retirement benefits	38,269	36,362
Tax loss carryforward	77,911	93,263
Other	2,137	1,102
	158,920	177,503
Less valuation allowance	9,486	10,982
	149,434	166,521
Deferred tax liabilities:		
Utility plant, principally due to depreciation and differences in the basis of fixed assets due to variation in tax and book accounting	1,104,032	1,027,406
Deferred taxes associated with the gross-up of revenues necessary to recover, in rates, the effect of temporary differences	269,773	214,861
Tax effect of regulatory asset for post-retirement benefits	38,269	36,362
Deferred investment tax credit	6,613	6,815
	1,418,687	1,285,444
Net deferred tax liability	$ 1,269,253	1,118,923

At December 31, 2016, the Company has a cumulative Federal net operating loss ("NOL") of $113,144. The Company believes the Federal NOLs are more likely than not to be recovered and require no valuation allowance. The Company's Federal NOLs do not begin to expire until 2032.

In 2012 and 2011, as a result of the Company's Federal cumulative NOLs the Company ceased recognizing the windfall tax benefit associated with stock-based compensation, because the deduction did not reduce income taxes payable. As of December 31, 2015, the Company utilized all of the 2011 NOL and recognized a windfall tax benefit of $1,680. As a result of the adoption on January 1, 2017 of the FASB's updated accounting guidance on simplifying the accounting for share-based payments, the Company will recognize a windfall tax benefit of $2,805 associated with the Company's 2012 Federal NOL, which will be recorded as an adjustment to retained earnings.

At December 31, 2016 the Company has a cumulative state NOL of $575,330, a portion of which is offset by a valuation allowance because the Company does not believe these NOLs are more likely than not to be realized. The state NOLs do not begin to expire until 2023.

The Company has unrecognized tax positions that result in the associated tax benefit being unrecognized. The Company's Federal and state NOL carryforwards are reduced by an unrecognized tax position, on a gross basis, of $62,747 and $85,044, respectively, which results from the Company's adoption in 2013 of the FASB's accounting guidance on the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amounts of the Company's Federal and state NOL carryforwards prior to being reduced by the unrecognized tax positions are $175,891 and $660,373, respectively. The Company records its unrecognized tax benefit as a reduction to its deferred income tax liability.

(In thousands of dollars, except per share amounts)

As of December 31, 2016, the Company's Federal income tax returns for all years through 2011 have been closed. Tax years 2012 through 2016 remain open to Federal examination. The statute remains open for the Company's state income tax returns for tax years 2013 through 2016 in the various states in which the Company's conducts business.

Note 8 – *Taxes Other than Income Taxes*

The following table provides the components of taxes other than income taxes:

	Years Ended December 31,		
	2016	2015	2014
Property	$ 26,788	$ 26,545	$ 24,133
Capital Stock	1,442	1,644	1,315
Gross receipts, excise and franchise	10,864	10,362	10,945
Payroll	9,772	9,539	7,583
Regulatory assessments	2,630	2,689	2,538
Pumping fees	4,571	3,993	3,618
Other	318	285	321
Total taxes other than income taxes	$ 56,385	$ 55,057	$ 50,453

Note 9 – *Commitments and Contingencies*

The following disclosures reflect commitments and contingencies for the Company's continuing operations.

Commitments – The Company leases motor vehicles, buildings and other equipment under operating leases that are noncancelable. The future annual minimum lease payments due are as follows:

2017	2018	2019	2020	2021	Thereafter
$ 1,122	$ 962	$ 789	$ 750	$ 559	$ 588

The Company leases parcels of land on which treatment plants and other facilities are situated and adjacent parcels that are used for watershed protection. The operating leases are noncancelable, expire between 2017 and 2052 and contain renewal provisions. Some leases are subject to an adjustment every five years based on changes in the Consumer Price Index. Subject to the aforesaid adjustment, during each of the next five years, an average of $582 of annual lease payments for land is due, and the aggregate of the years remaining approximates $12,927.

The Company maintains agreements with other water purveyors for the purchase of water to supplement its water supply, particularly during periods of peak demand. The agreements stipulate purchases of minimum quantities of water to the year 2026. The estimated annual commitments related to such purchases through 2021 are expected to average $5,075 and the aggregate of the years remaining approximates $13,587.

(In thousands of dollars, except per share amounts)

The Company has entered into purchase obligations, in the ordinary course of business, that include agreements for water treatment processes at some of its wells in a small number of its divisions. The 20 year term agreement provides for the use of treatment equipment and media used in the treatment process and are subject to adjustment based on changes in the Consumer Price Index. The future contractual cash obligations related to these agreements are as follows:

2017	2018	2019	2020	2021	Thereafter
$ 22,153	$ 1,101	$ 1,101	$ 1,100	$ 1,099	$ 7,326

Rent expense under operating leases, purchased water expense, and water treatment expenses under these agreements were as follows:

	Years Ended December 31,		
	2016	2015	2014
Operating lease expense	$ 2,440	$ 2,440	$ 2,820
Purchased water under long-term agreements	13,955	13,718	13,139
Water treatment expense under contractual agreement	940	972	892

Contingencies – The Company is routinely involved in various disputes, claims, lawsuits and other regulatory and legal matters, including both asserted and unasserted legal claims, in the ordinary course of business. The status of each such matter, referred to herein as a loss contingency, is reviewed and assessed in accordance with applicable accounting rules regarding the nature of the matter, the likelihood that a loss will be incurred, and the amounts involved. As of December 31, 2016, the aggregate amount of $13,892 is accrued for loss contingencies and is reported in the Company's consolidated balance sheet as other accrued liabilities and other liabilities. These accruals represent management's best estimate of probable loss (as defined in the accounting guidance) for loss contingencies or the low end of a range of losses if no single probable loss can be estimated. For some loss contingencies, the Company is unable to estimate the amount of the probable loss or range of probable losses. While the final outcome of these loss contingencies cannot be predicted with certainty, and unfavorable outcomes could negatively impact the Company, at this time in the opinion of management, the final resolution of these matters are not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows. Further, Aqua America has insurance coverage for a number of these loss contingencies, and as of December 31, 2016, estimates that approximately $1,242 of the amount accrued for these matters are probable of recovery through insurance, which amount is also reported in the Company's consolidated balance sheet as deferred charges and other assets, net.

Although the results of legal proceedings cannot be predicted with certainty, there are no pending legal proceedings to which the Company or any of its subsidiaries is a party or to which any of its properties is the subject that are material or are expected to have a material effect on the Company's financial position, results of operations or cash flows.

Additionally, the Company self-insures its employee medical benefit program, and maintains stop-loss coverage to limit the exposure arising from these claims. The Company's reserve for these claims totaled $1,770 and $1,496 at December 31, 2016 and 2015 and represents a reserve for unpaid claim costs, including an estimate for the cost of incurred but not reported claims.

(In thousands of dollars, except per share amounts)

Note 10 – *Long-term Debt and Loans Payable*

Long-term Debt – The consolidated statements of capitalization provide a summary of long-term debt as of December 31, 2016 and 2015. The supplemental indentures with respect to specific issues of the first mortgage bonds restrict the ability of Aqua Pennsylvania and other operating subsidiaries of the Company to declare dividends, in cash or property, or repurchase or otherwise acquire the stock of these companies. Loan agreements for Aqua Pennsylvania and other operating subsidiaries of the Company have restrictions on minimum net assets. As of December 31, 2016, restrictions on the net assets of the Company were $1,324,679 of the total $1,850,068 in net assets. Included in this amount were restrictions on Aqua Pennsylvania's net assets of $999,061 of their total net assets of $1,419,703. As of December 31, 2016, approximately $1,268,494 of Aqua Pennsylvania's retained earnings of approximately $1,288,494 and approximately $118,400 of the retained earnings of approximately $171,800 of other subsidiaries were free of these restrictions. Some supplemental indentures also prohibit Aqua Pennsylvania and some other subsidiaries of the Company from making loans to, or purchasing the stock of, the Company.

Sinking fund payments are required by the terms of specific issues of long-term debt. Excluding amounts due under the Company's revolving credit agreement, the future sinking fund payments and debt maturities of the Company's long-term debt are as follows:

Interest Rate Range	2017	2018	2019	2020	2021	Thereafter
0.00% to 0.99%	$ 487	$ 483	$ 486	$ 486	$ 484	$ 2,235
1.00% to 1.99%	51,389	51,398	1,287	1,232	1,003	9,230
2.00% to 2.99%	1,649	1,693	1,739	1,786	1,835	10,966
3.00% to 3.99%	2,712	2,808	2,760	2,557	2,595	613,512
4.00% to 4.99%	58,952	11,195	50,404	16,617	15,298	468,452
5.00% to 5.99%	24,945	10,596	31,125	23,120	8,402	274,699
6.00% to 6.99%	9,000	12,985	-	-	-	31,000
7.00% to 7.99%	445	523	566	612	663	30,257
8.00% to 8.99%	392	521	563	611	1,662	2,816
9.00% to 9.99%	700	5,700	700	2,400	4,900	12,000
10.00% to 10.99%	-	6,000	-	-	-	-
Total	$ 150,671	$ 103,902	$ 89,630	$ 49,421	$ 36,842	$ 1,455,167

In December 2016, Aqua Pennsylvania issued $85,000 of first mortgage bonds, of which $25,000 is due in 2051 and $60,000 is due in 2056 with interest rates of 3.85% and 3.95%, respectively. In January 2017, Aqua Pennsylvania issued $50,000 of first mortgage bonds, of which $10,000 is due in 2042 and $40,000 is due in 2044 with interest rates of 3.65% and 3.69%, respectively. The proceeds from these bonds were used to repay existing indebtedness and for general corporate purposes.

In November 2016, the Company issued $125,000 of senior notes, of which $35,000 is due in 2031, $30,000 is due in 2034, $25,000 is due in 2035, $10,000 is due in 2038, and $25,000 is due in 2041 with interest rates of 3.01%, 3.19%, 3.25%, 3.41%, and 3.57%, respectively. The proceeds from these bonds were used to repay existing indebtedness and for general corporate purposes.

In December 2015, Aqua Pennsylvania issued $210,000 of first mortgage bonds, of which $65,000 is due in 2036, $20,000 is due in 2037, $25,000 is due in 2038, $60,000 is due in 2046, $20,000 is due in 2047, and $20,000 is due in 2048 with interest rates of 3.77%, 3.82%, 3.85%, 4.16%, 4.18%, and 4.20%, respectively. The proceeds from these bonds were used to repay existing indebtedness and for general corporate purposes.

In October 2015, Aqua Pennsylvania provided notice for the early redemption of $4,000 of first mortgage bonds at 8.14% that were originally maturing in 2025 and $95,985 of tax-exempt bonds at 5.00% that were originally maturing between 2035 and 2038. Upon early redemption in December 2015 of the tax-exempt bonds, a gain of $678 was recognized resulting from the recognition of the unamortized issuance premium.

In May 2015, the Company issued $70,000 of senior unsecured notes due in 2030 with an interest rate of 3.59%. The proceeds were used to repay existing indebtedness and for general corporate purposes.

In May 2015, Aqua Pennsylvania entered into a $50,000 three-year unsecured loan at an interest rate of 1.975%. The proceeds from this loan were used for refinancing existing indebtedness and general working capital purposes.

As of December 31, 2016 and 2015, the Company did not have any funds restricted for construction activity. The weighted average cost of long-term debt at December 31, 2016 and 2015 was 4.23% and 4.44%, respectively. The weighted average cost of fixed rate long-term debt at December 31, 2016 and 2015 was 4.26% and 4.57%, respectively.

The Company has a five-year unsecured revolving credit facility, which was amended in February 2016 to extend the expiration from March 2017 to February 2021, to increase the facility from $200,000 to $250,000, and added a fourth bank to the lending group. Included within this facility is a $15,000 sublimit for daily demand loans. Funds borrowed under this facility are classified as long-term debt and are used to provide working capital as well as support for letters of credit for insurance policies and other financing arrangements. As of December 31, 2016, the Company has the following sublimits and available capacity under the credit facility: $50,000 letter of credit sublimit, $32,439 of letters of credit available capacity, $0 borrowed under the swing-line commitment, and $25,000 of funds borrowed under the agreement. Interest under this facility is based at the Company's option, on the prime rate, an adjusted Euro-Rate, an adjusted federal funds rate or at rates offered by the banks. A facility fee is charged on the total commitment amount of the agreement. Under this facility the average cost of borrowings was 1.54% and 0.87%, and the average borrowing was $89,374 and $82,880, during 2016 and 2015, respectively.

The Company is obligated to comply with covenants under some of its loan and debt agreements. These covenants contain a number of restrictive financial covenants, which among other things limit, subject to specific exceptions, the Company's ratio of consolidated total indebtedness to consolidated total capitalization, and require a minimum level of earnings coverage over interest expense. During 2016, the Company was in compliance with its debt covenants under its credit facilities. Failure to comply with the Company's debt covenants could result in an event of default, which could result in the Company being required to repay or finance its borrowings before their due date, possibly limiting the Company's future borrowings, and increasing its borrowing costs.

Loans Payable – In November 2016, Aqua Pennsylvania renewed its $100,000 364-day unsecured revolving credit facility with four banks. The funds borrowed under this agreement are classified as loans payable and used to provide working capital. As of December 31, 2016 and 2015, funds borrowed under the agreement were $5,545 and $7,281, respectively. Interest under this facility is based, at the borrower's option, on the prime rate, an adjusted federal funds rate, an adjusted London Interbank Offered Rate corresponding to the interest period selected, an adjusted Euro-Rate corresponding to the interest period selected or at rates offered by the banks. This agreement restricts short-term borrowings of Aqua Pennsylvania. A commitment fee of 0.05% is charged on the total commitment amount of Aqua Pennsylvania's revolving credit agreement. The average cost of borrowing under the facility was 1.18% and 0.86%, and the average borrowing was $29,760 and $25,486, during 2016 and 2015, respectively. The maximum amount outstanding at the end of any one month was $52,905 and $40,000 in 2016 and 2015, respectively.

(In thousands of dollars, except per share amounts)

At December 31, 2016 and 2015, the Company had other combined short-term lines of credit of $35,500. Funds borrowed under these lines are classified as loans payable and are used to provide working capital. As of December 31, 2016 and 2015, funds borrowed under the short-term lines of credit were $990 and $9,440, respectively. The average borrowing under the lines was $2,944 and $5,132 during 2016 and 2015, respectively. The maximum amount outstanding at the end of any one month was $9,440 in 2016 and 2015, respectively. Interest under the lines is based at the Company's option, depending on the line, on the prime rate, an adjusted Euro-Rate, an adjusted federal funds rate or at rates offered by the banks. The average cost of borrowings under all lines during 2016 and 2015 was 1.24% and 0.99%, respectively.

Interest Income and Expense– Interest income of $217, $272, and $316 was netted against interest expense on the consolidated statement of net income for the years ended December 31, 2016, 2015, and 2014, respectively. The total interest cost was $80,811, $76,808, and $76,713 in 2016, 2015, and 2014, including amounts capitalized of $8,815, $6,219, and $5,134, respectively.

Note 11 – *Fair Value of Financial Instruments*

Financial instruments are recorded at carrying value in the financial statements and approximate fair value, with the exception of long-term debt, as of the dates presented. The fair value of these instruments is disclosed below in accordance with current accounting guidance related to financial instruments.

The fair value of cash and cash equivalents, which is comprised of a money market fund, is determined based on the net asset value per unit utilizing level 2 methods and assumptions. As of December 31, 2016 and 2015, the carrying amounts of the Company's cash and cash equivalents were $3,763 and $3,229, which equates to their fair value. The fair value of "available-for-sale" securities to fund our deferred compensation plan liability, which represents mutual funds, is determined based on quoted market prices from active markets. As of December 31, 2016 and 2015, the carrying amount of these securities was $17,072 and $10,284. The fair value of funds restricted for construction activity and loans payable are determined based on their carrying amount and utilizing level 1 methods and assumptions. As of December 31, 2016 and 2015, the Company did not have any funds restricted for construction activity. As of December 31, 2016 and 2015, the carrying amount of the Company's loans payable was $6,535 and $16,721, respectively, which equates to their estimated fair value.

The carrying amounts and estimated fair values of the Company's long-term debt is as follows:

	December 31,	
	2016	2015
Carrying amount	$ 1,910,633	$ 1,779,205
Estimated fair value	2,018,933	1,905,393

The fair value of long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration utilizing level 2 methods and assumptions. The Company's customers' advances for construction have a carrying value of $91,843 and $86,934 at December 31, 2016 and 2015, respectively. Their relative fair values cannot be accurately estimated because future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases. Portions of these non-interest bearing instruments are payable annually through 2026 and amounts not paid by the contract expiration dates become non-refundable. The fair value of these amounts would, however, be less than their carrying value due to the non-interest bearing feature.

(In thousands of dollars, except per share amounts)

Note 12 – *Stockholders' Equity*

At December 31, 2016, the Company had 300,000,000 shares of common stock authorized; par value $0.50. Shares outstanding and treasury shares held were as follows:

	December 31,		
	2016	2015	2014
Shares outstanding	177,394,376	176,544,091	176,753,270
Treasury shares	2,916,969	2,819,569	1,837,984

At December 31, 2016, the Company had 1,770,819 shares of authorized but unissued Series Preferred Stock, $1.00 par value.

In February 2015, the Company filed a universal shelf registration statement with the Securities and Exchange Commission ("SEC") to allow for the potential future sale by the Company, from time to time, in one or more public offerings, of an indeterminate amount of our common stock, preferred stock, debt securities and other securities specified therein at indeterminate prices.

In February 2015, the Company filed a registration statement with the SEC which permits the offering, from time to time, of an aggregate of $500,000 in shares of common stock and shares of preferred stock in connection with acquisitions. During 2016, 439,943 shares of common stock totaling $12,845 were issued by the Company to acquire a water utility system. The balance remaining available for use under the acquisition shelf registration as of December 31, 2016 is $487,155.

The form and terms of any securities issued under the universal shelf registration statement and the acquisition shelf registration statement will be determined at the time of issuance.

The Company has a Dividend Reinvestment and Direct Stock Purchase Plan ("Plan") that allows reinvested dividends to be used to purchase shares of common stock at a five percent discount from the current market value. Under the direct stock purchase program, shares are purchased by investors at a five percent discount from the market price. The shares issued under the Plan are either shares purchased by the Company's transfer agent in the open-market or original issue shares. In 2016, 2015, and 2014, 484,645, 535,439, and 558,317 shares of the Company were purchased under the dividend reinvestment portion of the Plan by the Company's transfer agent in the open-market for $14,916, $14,380, and $14,148, respectively. During 2016 and 2015, under the dividend reinvestment portion of the Plan, 47,478 and 26,295 original issue shares of common stock were sold, providing the Company with proceeds of $1,388 and $677, respectively. During 2014 to minimize share dilution, the Company did not sell original issue shares of common stock under the Plan.

In October 2013, the Company's Board of Directors approved a resolution authorizing the Company to purchase, from time to time, up to 685,348 shares of its common stock in the open market or through privately negotiated transactions. This authorization renewed the number of shares that had remained, when affected for stock splits, from an existing share buy-back authorization from 1997. The specific timing, amount and other terms of repurchases will depend on market conditions, regulatory requirements and other factors. In 2014, we repurchased 560,000 shares of our common stock in the open market for $13,280. In December 2014, the Company's Board of Directors authorized a share buyback program, commencing in 2015, of up to 1,000,000 shares to minimize share dilution through timely and orderly share repurchases. In December 2015, the Company's Board of Directors added 400,000 shares to this program. In 2016, we did not repurchase any shares of our common stock in the open market. In 2015, we repurchased 805,000 shares of the Company's common stock in the open market for $20,502. This program expired on December 31, 2016.

The Company's accumulated other comprehensive income is reported in the stockholders' equity section of the consolidated balance sheets, the consolidated statements of equity, and the related components of other comprehensive income are reported in the consolidated statements of comprehensive income. The Company reports its unrealized gains or losses on investments as other comprehensive income and accumulated other comprehensive income. The Company recorded a regulatory asset for its underfunded status of its pension and other post-retirement benefit plans that would otherwise be charged to other comprehensive income, as it anticipates recovery of its costs through customer rates.

Note 13 – *Net Income per Common Share and Equity per Common Share*

Basic net income per share is based on the weighted average number of common shares outstanding. Diluted net income per share is based on the weighted average number of common shares outstanding and potentially dilutive shares. The dilutive effect of employee stock-based compensation is included in the computation of diluted net income per share. The dilutive effect of stock-based compensation is calculated by using the treasury stock method and expected proceeds upon exercise or issuance of the stock-based compensation. The following table summarizes the shares, in thousands, used in computing basic and diluted net income per share:

	Years ended December 31,		
	2016	2015	2014
Average common shares outstanding during the period for basic computation	177,273	176,788	176,864
Effect of dilutive securities:			
Employee stock-based compensation	573	729	899
Average common shares outstanding during the period for diluted computation	177,846	177,517	177,763

For the years ended December 31, 2016, 2015, and 2014, all of the Company's employee stock options were included in the calculation of diluted net income per share as the calculated cost to exercise the stock options was less than the average market price of the Company's common stock during these periods.

Equity per common share was $10.43 and $9.78 at December 31, 2016 and 2015, respectively. These amounts were computed by dividing Aqua America stockholders' equity by the number of shares of common stock outstanding at the end of each year.

Note 14 – *Employee Stock and Incentive Plan*

Under the Company's 2009 Omnibus Equity Compensation Plan, as amended as of February 27, 2014 (the "2009 Plan"), as approved by the Company's shareholders to replace the 2004 Equity Compensation Plan (the "2004 Plan"), stock options, stock units, stock awards, stock appreciation rights, dividend equivalents, and other stock-based awards may be granted to employees, non-employee directors, and consultants and advisors. No further grants may be made under the 2004 Plan. The 2009 Plan authorizes 6,250,000 shares for issuance under the plan. A maximum of 3,125,000 shares under the 2009 Plan may be issued pursuant to stock award, stock units and other stock-based awards, subject to adjustment as provided in the 2009 Plan. During any calendar year, no individual may be granted (i) stock options and stock appreciation rights under the 2009 Plan for more than 500,000 shares of common stock in the aggregate or (ii) stock awards, stock units or other stock-based awards under the 2009 Plan for more than 500,000 shares of Company stock in the aggregate, subject to adjustment as provided in the 2009 Plan. Awards to employees and consultants under the 2009 Plan are made by a committee of the Board of Directors, except that with respect to awards to the Chief Executive Officer, the committee

recommends those awards for approval by the non-employee directors of the Board of Directors. In the case of awards to non-employee directors, the Board of Directors makes such awards. At December 31, 2016, 3,952,869 shares underlying stock-based compensation awards were still available for grant under the 2009 Plan.

The recording of compensation expense for share-based compensation has no impact on net cash flows and results in the reclassification on the consolidated cash flow statements of related tax benefits from cash flows from operating activities to cash flows from financing activities to the extent these tax benefits exceed the associated compensation cost.

Performance Share Units – During 2016, 2015, and 2014, the Company granted performance share units. A performance share unit ("PSU") represents the right to receive a share of the Company's common stock if specified performance goals are met over the three year performance period specified in the grant, subject to exceptions through the respective vesting periods, generally three years. Each grantee is granted a target award of PSUs, and may earn between 0% and 200% of the target amount depending on the Company's performance against the performance goals, which consisted of the following metrics for the 2016 grant:

- 27.5% of the PSUs could be earned based on the Company's total shareholder return ("TSR") compared to the TSR for a specific peer group of investor-owned water companies (a market-based condition);
- 27.5% of the PSUs could be earned based on the Company's TSR compared to the TSR for the companies listed in the Standard and Poor' Midcap Utilities Index (a market-based condition);
- 25% of the PSUs could be earned based on the achievement of a targeted cumulative level of rate base growth as a result of acquisitions (a performance-based condition); and
- And 20% of the PSUs could be earned based on the achievement of targets for maintaining consolidated operations and maintenance expenses over the three year measurement period (a performance-based condition).

The performance goals of the 2015 and 2014 grants consisted of the following metrics:

- 30% of the PSUs could be earned based on the Company's TSR compared to the TSR for a specific peer group of investor-owned water companies (a market-based condition);
- 30% of the PSUs could be earned based on the Company's TSR compared to the TSR for the companies listed in the Standard and Poor's Midcap Utilities Index (a market-based condition);
- 20% of the PSUs could be earned based on maintaining an average ratio of operations and maintenance expenses as a percentage of revenues at Aqua Pennsylvania compared to a target average ratio for the three year performance period (a performance-based condition); and
- 20% of the PSUs could be earned based on earning a cumulative total earnings before taxes for the Company operations other than Aqua Pennsylvania for the three year performance period compared to a target (a performance-based condition).

(In thousands of dollars, except per share amounts)

The following table provides compensation costs for PSUs:

	Years ended December 31,		
	2016	2015	2014
Stock-based compensation within operations and maintenance expense	$ 3,823	4,419	$ 4,996
Income tax benefit	1,552	1,796	2,044

The following table summarizes nonvested PSU transactions for the year ended December 31, 2016:

	Number of Share Units	Weighted Average Fair Value
Nonvested share units at beginning of period	424,858	$ 25.78
Granted	152,750	28.89
Performance criteria adjustment	66,512	26.65
Forfeited	(21,964)	26.85
Share units vested in prior period and issued in current period	44,625	26.88
Share units issued	(189,885)	23.25
Nonvested share units at end of period	476,896	$ 27.96

A portion of the fair value of PSUs was estimated at the grant date based on the probability of satisfying the market-based conditions associated with the PSUs using the Monte Carlo valuation method, which assesses the probabilities of various outcomes of market conditions. The other portion of the fair value of the PSUs associated with performance-based conditions was based on the fair market value of the Company's stock at the grant date, regardless of whether the market-based condition is satisfied. The fair value of each PSU grant is amortized into compensation expense on a straight-line basis over their respective vesting periods, generally 36 months. The accrual of compensation costs is based on an estimate of the final expected value of the award, and is adjusted as required for the portion based on the performance-based condition. The Company assumes that forfeitures will be minimal, and recognizes forfeitures as they occur, which results in a reduction in compensation expense. As the payout of the PSUs includes dividend equivalents, no separate dividend yield assumption is required in calculating the fair value of the PSUs. The recording of compensation expense for PSUs has no impact on net cash flows. The following table provides the assumptions used in the pricing model for the grant, the resulting grant date fair value of PSUs, and the intrinsic value and fair value of PSUs that vested during the year:

	Years ended December 31,		
	2016	2015	2014
Expected term (years)	3.0	3.0	3.0
Risk-free interest rate	0.91%	1.03%	0.68%
Expected volatility	17.9%	16.9%	19.8%
Weighted average fair value of PSUs granted	$ 28.89	$ 26.46	$ 25.31
Intrinsic value of vested PSUs	$ 5,912	$ 7,964	$ 4,327
Fair value of vested PSUs	$ 5,104	$ 6,416	$ 3,297

(In thousands of dollars, except per share amounts)

As of December 31, 2016, $5,444 of unrecognized compensation costs related to PSUs is expected to be recognized over a weighted average period of approximately 1.8 years. The aggregate intrinsic value of PSUs as of December 31, 2016 was $15,582. The aggregate intrinsic value of PSUs is based on the number of nonvested share units and the market value of the Company's common stock as of the period end date.

Restricted Stock Units – A restricted stock unit ("RSU") represents the right to receive a share of the Company's common stock and is valued based on the fair market value of the Company's stock on the date of grant. RSUs are eligible to be earned at the end of a specified restricted period, generally three years, beginning on the date of grant. In some cases, the right to receive the shares is subject to specific performance goals established at the time the grant is made. The Company assumes that forfeitures will be minimal, and recognizes forfeitures as they occur, which results in a reduction in compensation expense. As the payout of the RSUs includes dividend equivalents, no separate dividend yield assumption is required in calculating the fair value of the RSUs. The following table provides compensation costs for RSUs:

	Years ended December 31,		
	2016	2015	2014
Stock-based compensation within operations and maintenance expense	$ 1,061	$ 1,076	$ 1,122
Income tax benefit	438	444	464

The following table summarizes nonvested RSU transactions for the year ended December 31, 2016:

	Number of Stock Units	Weighted Average Fair Value
Nonvested stock units at beginning of period	88,353	$ 24.94
Granted	50,612	32.08
Stock units vested and issued	(25,740)	23.51
Forfeited	(3,952)	27.81
Nonvested stock units at end of period	109,273	$ 28.48

The following table summarizes the value of RSUs:

	Years ended December 31,		
	2016	2015	2014
Weighted average fair value of RSUs granted	$ 32.08	$ 26.00	$ 24.80
Intrinsic value of vested RSUs	805	2,327	759
Fair value of vested RSUs	605	1,904	544

As of December 31, 2016, $1,498 of unrecognized compensation costs related to RSUs is expected to be recognized over a weighted average period of approximately 1.8 years. The aggregate intrinsic value of RSUs as of December 31, 2016 was $3,283. The aggregate intrinsic value of RSUs is based on the number of nonvested stock units and the market value of the Company's common stock as of the period end date.

(In thousands of dollars, except per share amounts)

Stock Options – The following table provides compensation costs for stock options:

	Years ended December 31,		
	2016	2015	2014
Income tax benefit	$ 260	$ 193	$ 189

There were no stock options granted during the years ended December 31, 2016, 2015, and 2014. Options under the plans were issued at the closing market price of the stock on the day of the grant. Options are exercisable in installments of 33% annually, starting one year from the date of the grant and expire 10 years from the date of the grant. The fair value of options was estimated at the grant date using the Black-Scholes option-pricing model, which relies on assumptions that require management's judgment.

The following table summarizes stock option transactions for the year ended December 31, 2016:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Aggregate Intrinsic Value
Outstanding, beginning of year	659,533	$ 16.62		
Forfeited	-	-		
Expired / Cancelled	(3,436)	16.15		
Exercised	(228,762)	18.62		
Outstanding and exercisable at end of year	427,335	$ 15.55	1.9	$ 6,190

The intrinsic value of stock options is the amount by which the market price of the stock on a given date, such as at the end of the period or on the day of exercise, exceeded the closing market price of stock on the date of grant. The following table summarizes the aggregate intrinsic value of stock options exercised and the fair value of stock options which became vested:

	Years ended December 31,		
	2016	2015	2014
Intrinsic value of options exercised	$ 2,945	$ 4,154	$ 4,054

(In thousands of dollars, except per share amounts)

The following table summarizes information about the options outstanding and options exercisable as of December 31, 2016:

	Options Outstanding and Exercisable		
	Shares	Weighted Average Remaining Life (years)	Weighted Average Exercise Price
Range of prices:			
$13.00 - 14.99	121,707	3.1	$ 13.72
$15.00 - 15.99	127,779	2.2	15.30
$16.00 - 16.99	117,025	1.2	16.15
$17.00 - 19.99	60,824	0.1	18.61
	427,335	1.9	$ 15.55

As of December 31, 2016, there were no unrecognized compensation costs related to nonvested stock options granted under the plans.

Restricted Stock – Restricted stock awards provide the grantee with the rights of a shareholder, including the right to receive dividends and to vote such shares, but not the right to sell or otherwise transfer the shares during the restriction period. Restricted stock awards result in compensation expense which is equal to the fair market value of the stock on the date of the grant and is amortized ratably over the restriction period. The Company expects forfeitures of restricted stock to be de minimis.

The following table provides compensation costs for restricted stock:

	Years ended December 31,		
	2016	2015	2014
Stock-based compensation within operations and maintenance expense	$ -	$ -	$ 691
Income tax benefit	-	-	287

The following table summarizes the value of restricted stock awards:

	Years ended December 31,		
	2016	2015	2014
Intrinsic value of restricted stock awards vested	$ -	$ 860	$ 1,097
Fair value of restricted stock awards vested	-	553	906
Weighted average fair value of restricted stock awards granted	-	-	25.19

As of December 31, 2016, there were no unrecognized compensation costs related to nonvested restricted stock as restricted stock was fully amortized in 2014. Additionally, there was no restricted stock granted during the years ended December 31, 2016 and 2015.

(In thousands of dollars, except per share amounts)

Stock Awards – The following table provides compensation costs for stock-based compensation related to stock awards:

	Years ended December 31,		
	2016	2015	2014
Stock-based compensation within operations and maintenance expense	$ 506	$ 365	$ -
Income tax benefit	210	151	-

The following table summarizes stock award transactions for year ended December 31, 2016:

	Number of Stock Units	Weighted Average Fair Value
Nonvested stock awards at beginning of period	-	$ -
Granted	15,877	31.87
Vested	(15,877)	31.87
Nonvested stock units at end of period	-	$

The per unit weighted-average fair value at the date of grant for stock awards granted during the years ended December 31, 2016 and 2015 was $31.87 and $26.44, respectively.

Note 15 – *Pension Plans and Other Post-retirement Benefits*

The Company maintains a qualified, defined benefit pension plan that covers its full-time employees who were hired prior to April 1, 2003. Retirement benefits under the plan are generally based on the employee's total years of service and compensation during the last five years of employment. The Company's policy is to fund the plan annually at a level which is deductible for income tax purposes and which provides assets sufficient to meet its pension obligations over time. To offset some limitations imposed by the Internal Revenue Code with respect to payments under qualified plans, the Company has a non-qualified Supplemental Pension Benefit Plan for Salaried Employees in order to prevent some employees from being penalized by these limitations, and to provide certain retirement benefits based on employee's years of service and compensation. The Company also has non-qualified Supplemental Executive Retirement Plans for some current and retired employees. The net pension costs and obligations of the qualified and non-qualified plans are included in the tables which follow. Employees hired after April 1, 2003 may participate in a defined contribution plan that provides a Company matching contribution on amounts contributed by participants and an annual profit-sharing contribution based upon a percentage of the eligible participants' compensation.

In August 2014, the Company announced changes to the way it will provide future retirement benefits to employees acquired through a prior acquisition. Effective January 1, 2015, the Company began providing future retirement benefits for these employees through its defined contribution plan. As a result, no further service will be considered in future accruals in the qualified defined benefit pension plan after December 31, 2014, and as a result of this change, the Company recognized a curtailment loss of $84 in 2014.

Effective July 1, 2015, the Company added a permanent lump sum option to the form of benefit payments offered to participants of the qualified defined benefit pension plan upon retirement or termination. The plan paid $5,329 during the second half of 2015 to participants who elected this option and $9,990 during 2016.

In addition to providing pension benefits, the Company offers post-retirement benefits other than pensions to employees hired before April 1, 2003 and retiring with a minimum level of service. These benefits include continuation of medical and prescription drug benefits, or a cash contribution toward such benefits, for eligible retirees and life insurance benefits for eligible retirees. The Company funds these benefits through various trust accounts. The benefits of retired officers and other eligible retirees are paid by the Company and not from plan assets due to limitations imposed by the Internal Revenue Code.

In 2016 the Company recognized a settlement loss of $2,895, which results from lump sum payments from the non-qualified plans exceeding the threshold of service and interest cost for the period. A settlement loss is the recognition of unrecognized pension benefit costs that would have been incurred in subsequent periods. The Company recorded this settlement loss as a regulatory asset, as it is probable of recovery in future rates, which will be amortized into pension benefit costs.

(In thousands of dollars, except per share amounts)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

	Pension Benefits	Other Post-retirement Benefits
Years:		
2017	$ 20,791	$ 2,025
2018	20,640	2,296
2019	20,240	2,570
2020	21,369	2,815
2021	20,824	2,974
2022-2026	104,672	17,701

The changes in the benefit obligation and fair value of plan assets, the funded status of the plans and the assumptions used in the measurement of the company's benefit obligation are as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2016	2015	2016	2015
Change in benefit obligation:				
Benefit obligation at January 1,	$ 306,539	$ 311,609	$ 65,137	$ 71,958
Service cost	3,179	3,349	1,014	1,224
Interest cost	13,038	12,955	2,927	2,802
Actuarial (gain) loss	15,321	(7,778)	1,400	(6,527)
Plan participants' contributions	-	-	170	204
Benefits paid	(21,861)	(17,118)	(1,336)	(1,270)
Plan amendments	-	3,220	-	(3,254)
Settlements	(7,742)	-	-	-
Special termination benefits	(302)	302	-	-
Benefit obligation at December 31,	308,172	306,539	69,312	65,137
Change in plan assets:				
Fair value of plan assets at January 1,	238,605	244,897	43,704	43,326
Actual return on plan assets	17,375	(3,058)	2,149	(998)
Employer contributions	16,285	13,884	1,360	2,428
Benefits paid	(21,861)	(17,118)	(1,128)	(1,052)
Settlements	(7,742)	-	-	-
Special termination benefits	(302)	-	-	-
Fair value of plan assets at December 31,	242,360	238,605	46,085	43,704
Funded status of plan:				
Net amount recognized at December 31,	$ 65,812	$ 67,934	$ 23,227	$ 21,433

(In thousands of dollars, except per share amounts)

The following table provides the net liability recognized on the consolidated balance sheets at December 31,:

	Pension Benefits		Other Post-retirement Benefits	
	2016	2015	2016	2015
Current liability	$ 613	$ 8,370	$ -	$ -
Noncurrent liability	65,199	59,564	23,226	21,433
Net liability recognized	$ 65,812	$ 67,934	$ 23,226	21,433

At December 31, 2016 and 2015, the Company's pension plans had benefit obligations in excess of its plan assets. The following tables provide the projected benefit obligation, the accumulated benefit obligation and fair market value of the plan assets as of December 31,:

	Projected Benefit Obligation Exceeds the Fair Value of Plan Assets	
	2016	2015
Projected benefit obligation	$ 308,172	$ 306,539
Fair value of plan assets	242,360	238,605

	Accumulated Benefit Obligation Exceeds the Fair Value of Plan Assets	
	2016	2015
Accumulated benefit obligation	$ 291,889	$ 291,132
Fair value of plan assets	242,360	238,605

The following table provides the components of net periodic benefit costs for the years ended December 31,:

	Pension Benefits			Other Post-retirement Benefits		
	2016	2015	2014	2016	2015	2014
Service cost	$ 3,179	$ 3,349	$ 4,295	$ 1,014	$ 1,224	$ 1,161
Interest cost	13,038	12,955	14,153	2,927	2,802	2,903
Expected return on plan assets	(16,910)	(18,702)	(17,601)	(2,647)	(2,923)	(2,742)
Amortization of prior service cost (credit)	578	174	277	(549)	(687)	(278)
Amortization of actuarial loss	7,153	5,993	2,256	926	1,282	260
Settlement loss	2,895	-	-	-	-	-
Curtailment loss	-	-	84	-	-	-
Special termination benefits	302	-	-	-	-	-
Net periodic benefit cost	$ 10,235	$ 3,769	$ 3,464	$ 1,671	$ 1,698	$ 1,304

The Company records the underfunded status of its pension and other post-retirement benefit plans on its consolidated balance sheets and records a regulatory asset for these costs that would otherwise be charged to stockholders' equity, as the Company anticipates recoverability of the costs through customer rates to be probable. The Company's pension and other post-retirement benefit plans were underfunded at December 31, 2016 and 2015. Changes in the plans' funded status will affect the assets and liabilities recorded on the balance

(In thousands of dollars, except per share amounts)

sheet. Due to the Company's regulatory treatment, the recognition of the funded status is recorded as a regulatory asset pursuant to the FASB's accounting guidance for regulated operations.

The following table provides the amounts recognized in regulatory assets that have not been recognized as components of net periodic benefit cost as of December 31,:

	Pension Benefits		Other Post-retirement Benefits	
	2016	2015	2016	2015
Net actuarial loss	$ 92,436	$ 87,930	$ 15,441	$ 14,469
Prior service cost (credit)	3,841	4,419	(2,378)	(2,926)
Total recognized in regulatory assets	$ 96,277	$ 92,349	$ 13,063	$ 11,543

The following table provides the estimated net actuarial loss and prior service cost for the Company's pension plans that will be amortized from regulatory asset into net periodic benefit cost for the year ended December 31, 2017:

	Pension Benefits	Other Post-retirement Benefits
Net actuarial loss	$ 8,023	$ 1,165
Prior service cost (credit)	579	(509)

Accounting for pensions and other post-retirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by the Company's employees, mortality, turnover and medical costs. Each assumption is reviewed annually with assistance from the Company's actuarial consultant who provides guidance in establishing the assumptions. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other post-retirement benefit expense that the Company recognizes.

The significant assumptions related to the Company's benefit obligations are as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2016	2015	2016	2015
Weighted Average Assumptions Used to Determine Benefit Obligations as of December 31,				
Discount rate	4.13%	4.48%	4.25%	4.60%
Rate of compensation increase	3.0-4.0%	3.0-4.0%	n/a	n/a
Assumed Health Care Cost Trend Rates Used to Determine Benefit Obligations as of December 31,				
Health care cost trend rate	n/a	n/a	6.6%	7.0%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	n/a	n/a	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	n/a	n/a	2020	2021

n/a – Assumption is not applicable.

(In thousands of dollars, except per share amounts)

The significant assumptions related to the Company's net periodic benefit costs are as follows:

	Pension Benefits			Other Post-retirement Benefits		
	2016	2015	2014	2016	2015	2014
Weighted Average Assumptions Used to Determine Net Periodic Benefit Costs for Years Ended December 31,						
Discount rate	4.48%	4.20%	5.12%	4.60%	4.17%	5.12%
Expected return on plan assets	7.25%	7.50%	7.50%	4.83-7.25%	5.00-7.50%	5.00-7.50%
Rate of compensation increase	3.0-4.0%	3.0-4.0%	4.0-4.5%	n/a	n/a	n/a
Assumed Health Care Cost Trend Rates Used to Determine Net Periodic Benefit Costs for Years Ended December 31,						
Health care cost trend rate	n/a	n/a	n/a	7.0%	7.0%	7.5%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	n/a	n/a	n/a	5.0%	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	n/a	n/a	n/a	2021	2019	2019

n/a – Assumption is not applicable.

(In thousands of dollars, except per share amounts)

Assumed health-care trend rates have a significant effect on the expense and liabilities for other post-retirement benefit plans. The health care trend rate is based on historical rates and expected market conditions. A one-percentage point change in the assumed health-care cost trend rates would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on the health-care component of the accrued other post-retirement benefit obligation	$ 4,456	$ (3,981)
Effect on aggregate service and interest cost components of net periodic post-retirement health-care benefit cost	$ 267	$ (243)

The Company's discount rate assumption, which is utilized to calculate the present value of the projected benefit payments of our post-retirement benefits, was determined by selecting a hypothetical portfolio of high quality corporate bonds appropriate to match the projected benefit payments of the plans. The selected bond portfolio was derived from a universe of Aa-graded corporate bonds, all of which were noncallable (or callable with make-whole provisions), and have at least $50,000 in outstanding value. The discount rate was then developed as the rate that equates the market value of the bonds purchased to the discounted value of the plan's benefit payments. The Company's pension expense and liability (benefit obligations) increases as the discount rate is reduced.

The Company's expected return on plan assets is determined by evaluating the asset class return expectations with its advisors as well as actual, long-term, historical results of our asset returns. The Company's market related value of plan assets is equal to the fair value of the plan's assets as of the last day of its fiscal year, and is a determinant for the expected return on plan assets which is a component of post-retirement benefits expense. The Company's pension expense increases as the expected return on plan assets decreases. For 2016, the Company used a 7.25% expected return on plan assets assumption which will decrease to 7.00% for 2017. The Company believes its actual long-term asset allocation on average will approximate the targeted allocation. The Company's investment strategy is to earn a reasonable rate of return while maintaining risk at acceptable levels through the diversification of investments across and within various asset categories. Investment returns are compared to benchmarks that include the S&P 500 Index, the Barclays Capital Intermediate Government/Credit Index, and a combination of the two indices. The Pension Committee meets semi-annually to review plan investments and management monitors investment performance quarterly through a performance report prepared by an external consulting firm.

The Company's pension plan asset allocation and the target allocation by asset class are as follows:

		Percentage of Plan Assets at December 31,	
	Target Allocation	2016	2015
Domestic equities	25 to 75%	65%	63%
International equities	0 to 10%	6%	6%
Fixed income	25 to 50%	19%	24%
Alternative investments	0 to 5%	2%	3%
Cash and cash equivalents	0 to 20%	8%	4%
Total	100%	100%	100%

(In thousands of dollars, except per share amounts)

The fair value of the Company's pension plans' assets at December 31, 2016 by asset class are as follows:

	Level 1	Level 2	Level 3	Total
Domestic equities: (1)				
Common stocks	$ 152,740	$ -	$ -	$ 152,740
Mutual funds	3,668	-	-	3,668
International equities (2)	13,813	-	-	13,813
Fixed income: (3)				
U.S. Treasury and government agency bonds	-	11,170	-	11,170
Corporate and foreign bonds	-	24,385	-	24,385
Mutual funds	9,752		-	9,752
Alternative investments: (4)				
Real estate	2,613	-	-	2,613
Commodity funds	1,279	-	-	1,279
Cash and cash equivalents (5)	348	22,592	-	22,940
Total pension assets	$ 184,213	$ 58,147	$ -	$ 242,360

The fair value of the Company's pension plans' assets at December 31, 2015 by asset class are as follows:

	Level 1	Level 2	Level 3	Total
Domestic equities: (1)				
Common stocks	$ 146,970	$ -	$ -	$ 146,970
Mutual funds	3,605	-	-	3,605
International equities (2)	14,180	-	-	14,180
Fixed income: (3)				
U.S. Treasury and government agency bonds	-	22,953	-	22,953
Corporate and foreign bonds	-	13,579	-	13,579
Mutual funds	21,523	-	-	21,523
Alternative investments: (4)				
Real estate	5,981	-	-	5,981
Commodity funds	1,169	-	-	1,169
Cash and cash equivalents (5)	50	8,595	-	8,645
Total pension assets	$ 193,478	$ 45,127	$ -	$ 238,605

(1) Investments in common stocks are valued using unadjusted quoted prices obtained from active markets. Investments in equity mutual funds, which invest in stocks, are valued using the net asset value per unit as obtained from quoted market prices from active markets.

(2) Investments in international equities are valued using unadjusted quoted prices obtained from active markets.

(3) Investments in U.S. Treasury and government agency bonds and corporate and foreign bonds are valued by a pricing service which utilizes pricing models that incorporate available trade, bid, and other market

(In thousands of dollars, except per share amounts)

information to value the fixed income securities. Investments in fixed income mutual funds, which invest in bonds, are valued using the net asset value per unit as obtained from quoted market prices in active markets.

(4) Alternative investments are comprised of real estate funds, real estate investment trusts, and commodity funds, and are valued using unadjusted quoted prices obtained from active markets.

(5) Cash and cash equivalents are comprised of both uninvested cash and money market funds. The uninvested cash is valued based on its carrying value, and the money market funds are valued utilizing the net asset value per unit based on the fair value of the underlying assets as determined by the fund's investment managers.

Equity securities include our common stock in the amounts of $20,632 or 8.5% and $19,958 or 8.4% of total pension plans' assets as of December 31, 2016 and 2015, respectively.

The asset allocation for the Company's other post-retirement benefit plans and the target allocation by asset class are as follows:

		Percentage of Plan Assets at December 31,	
	Target Allocation	2016	2015
Domestic equities	25 to 75%	52%	54%
International equities	0 to 10%	3%	2%
Fixed income	25 to 50%	25%	26%
Alternative investments	0 to 5%	0%	0%
Cash and cash equivalents	0 to 20%	20%	18%
Total	100%	100%	100%

The fair value of the Company's other post-retirement benefit plans' assets at December 31, 2016 by asset class are as follows:

	Level 1	Level 2	Level 3	Total
Domestic equities: (1)				
Common stocks	$ 10,667	$ -	$ -	$ 10,667
Mutual funds	13,464	-	-	13,464
International equities (2)	1,242	-	-	1,242
Fixed income: (3)				
U.S. Treasury and government agency bonds	-	4,968	-	4,968
Corporate and foreign bonds	-	6,347	-	6,347
Alternative investments (4)	172	-	-	172
Cash and cash equivalents (5)	-	9,225	-	9,225
Total other post-retirement assets	$ 25,545	$ 20,540	$ -	$ 46,085

(In thousands of dollars, except per share amounts)

The fair value of the Company's other post-retirement benefit plans' assets at December 31, 2015 by asset class are as follows:

	Level 1	Level 2	Level 3	Total
Domestic equities: (1)				
Common stocks	$ 11,772	$ -	$ -	$ 11,772
Mutual funds	12,030	-	-	12,030
International equities (2)	1,078	-	-	1,078
Fixed income: (3)				
U.S. Treasury and government agency bonds	-	4,551	-	4,551
Corporate and foreign bonds	-	4,476	-	4,476
Mutual funds	2,177	-	-	2,177
Cash and cash equivalents (5)	-	7,620	-	7,620
Total other post-retirement assets	$ 27,057	$ 16,647	$ -	$ 43,704

(1) Investments in common stocks are valued using unadjusted quoted prices obtained from active markets. Investments in equity mutual funds, which invest in stocks, are valued using the net asset value per unit as obtained from quoted market prices from active markets.

(2) Investments in international equities are valued using unadjusted quoted prices obtained from active markets.

(3) Investments in U.S. Treasury and government agency bonds and corporate and foreign bonds are valued by a pricing service which utilizes pricing models that incorporate available trade, bid, and other market information to value the fixed income securities. Investments in fixed income mutual funds, which invest in bonds, are valued using the net asset value per unit as obtained from quoted market prices in active markets.

(4) Investments in alternative investments are comprised of investments in real estate funds and real estate investment trusts and are valued using unadjusted quoted prices obtained from active markets.

(5) Cash and cash equivalents is comprised of money market funds, which are valued utilizing the net asset value per unit based on the fair value of the underlying assets as determined by the fund's investment managers.

Funding requirements for qualified defined benefit pension plans are determined by government regulations and not by accounting pronouncements. In accordance with funding rules and the Company's funding policy, during 2017 our pension contribution is expected to be $15,421.

The Company has a 401(k) savings plan, which is a defined contribution plan and covers substantially all employees. The Company makes matching contributions that are initially invested in our common stock based on a percentage of an employee's contribution, subject to specific limitations. Participants may diversify their Company matching account balances into other investments offered under the 401(k) savings plan. The Company's contributions, which are recorded as compensation expense, were $4,988, $5,001, and $3,051, for the years ended December 31, 2016, 2015, and 2014, respectively.

Note 16 – *Water and Wastewater Rates*

On June 7, 2012, Aqua Pennsylvania reached a settlement agreement in its rate filing with the Pennsylvania Public Utility Commission, which in addition to a water rate increase, provided for a reduction in current income tax expense as a result of the recognition of qualifying income tax benefits upon Aqua Pennsylvania changing its

tax accounting method to permit the expensing of qualifying utility asset improvement costs that historically have been capitalized and depreciated for book and tax purposes. In December 2012, Aqua Pennsylvania implemented this change which provides for the flow-through of income tax benefits that resulted in a substantial reduction in income tax expense and greater net income and cash flow. This change allowed Aqua Pennsylvania to suspend its water Distribution System Improvement Charges in 2013 and lengthen the amount of time until the next Aqua Pennsylvania rate case is filed.

The Company's operating subsidiaries were allowed rate increases totaling $3,589 in 2016, $3,347 in 2015, and $9,886 in 2014, represented by seven, four, and twelve rate decisions, respectively. Revenues from these increases realized in the year of grant were approximately $1,801, $2,887, and $5,375 in 2016, 2015, and 2014, respectively.

Six states in which the Company operates permit water utilities, and in five states wastewater utilities, to add a surcharge to their water or wastewater bills to offset the additional depreciation and capital costs related to infrastructure system replacement and rehabilitation projects completed and placed into service between base rate filings. Currently, Pennsylvania, Illinois, Ohio, Indiana, New Jersey, and North Carolina allow for the use of this surcharge. The surcharge for infrastructure system replacements and rehabilitations is typically adjusted periodically based on additional qualified capital expenditures completed or anticipated in a future period, is capped as a percentage of base rates, generally at 5% to 12.75%, and is reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a regulatory benchmark. The surcharge for infrastructure system replacements and rehabilitations provided revenues in 2016, 2015, and 2014 of $7,379, $3,261, and $4,598, respectively.

Note 17 – *Segment Information*

The Company has ten operating segments and one reportable segment. The Regulated segment, the Company's single reportable segment, is comprised of eight operating segments representing our water and wastewater regulated utility companies which are organized by the states where we provide water and wastewater services. These operating segments are aggregated into one reportable segment since each of these operating segments has the following similarities: economic characteristics, nature of services, production processes, customers, water distribution or wastewater collection methods, and the nature of the regulatory environment.

Two operating segments are included within the Other category below. These segments are not quantitatively significant and are comprised of Aqua Resources and Aqua Infrastructure. In addition to these segments, Other is comprised of other business activities not included in the reportable segment, including corporate costs that have not been allocated to the Regulated segment and intersegment eliminations. Corporate costs include general and administrative expenses, and interest expense.

(In thousands of dollars, except per share amounts)

The following table presents information about the Company's reportable segment:

	2016			2015		
	Regulated	Other and Eliminations	Consolidated	Regulated	Other and Eliminations	Consolidated
Operating revenues	$ 800,107	$ 19,768	$ 819,875	$ 779,613	$ 34,591	$ 814,204
Operations and maintenance expense	285,347	19,550	304,897	282,866	26,444	309,310
Depreciation	131,835	(848)	130,987	125,146	144	125,290
Operating income (loss)	326,933	(1,348)	325,585	315,876	5,224	321,100
Interest expense, net	76,222	4,372	80,594	72,703	3,833	76,536
Allowance for funds used during construction	8,815	-	8,815	6,219	-	6,219
Equity (earnings) loss in joint venture	-	(976)	(976)	-	35,177	35,177
Income tax (benefit)	24,956	(3,978)	20,978	26,379	(11,417)	14,962
Net income (loss)	234,922	(740)	234,182	224,122	(22,332)	201,790
Capital expenditures	381,965	1,031	382,996	363,594	1,095	364,689
Total assets	5,953,702	205,289	6,158,991	5,541,335	176,538	5,717,873
Goodwill	37,367	4,841	42,208	27,246	6,620	33,866

	2014		
	Regulated	Other and Eliminations	Consolidated
Operating revenues	$ 756,057	$ 23,846	$ 779,903
Operations and maintenance expense	274,754	13,802	288,556
Depreciation	122,728	326	123,054
Operating income	305,333	9,026	314,359
Interest expense, net	72,106	4,291	76,397
Allowance for funds used during construction	5,134	-	5,134
Equity loss in joint venture	-	3,989	3,989
Income tax	24,792	427	25,219
Income (loss) from continuing operations	213,890	(6)	213,884
Capital expenditures	325,943	2,662	328,605
Total assets	5,172,371	210,872	5,383,243
Goodwill	24,564	6,620	31,184

Selected Quarterly Financial Data (Unaudited)

Aqua America, Inc. and Subsidiaries

(In thousands of dollars, except per share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2016					
Operating revenues	$ 192,607	$ 203,876	$ 226,593	$ 196,799	$ 819,875
Operations and maintenance expense	73,541	73,994	79,812	77,550	304,897
Operating income	72,331	83,493	97,799	71,962	325,585
Net income	51,737	59,626	73,170	49,649	234,182
Basic net income per common share	0.29	0.34	0.41	0.28	1.32
Diluted net income per common share	0.29	0.33	0.41	0.28	1.32
Dividend paid per common share	0.178	0.178	0.1913	0.1913	0.7386
Dividend declared per common share	0.178	0.178	0.1913	0.1913	0.7386
Price range of common stock:					
- high	32.44	35.66	35.83	31.29	35.83
- low	28.35	30.31	29.53	28.03	28.03
2015					
Operating revenues	$ 190,326	$ 205,760	$ 221,051	$ 197,067	$ 814,204
Operations and maintenance expense	73,189	79,746	78,519	77,856	309,310
Operating income	71,167	80,246	95,072	74,615	321,100
Net income	48,545	57,382	67,429	28,434	201,790
Basic net income per common share	0.27	0.32	0.38	0.16	1.14
Diluted net income per common share	0.27	0.32	0.38	0.16	1.14
Dividend paid per common share	0.165	0.165	0.178	0.178	0.686
Dividend declared per common share	0.165	0.165	0.178	0.178	0.686
Price range of common stock:					
- high	28.13	27.53	27.10	31.09	31.09
- low	25.42	24.40	24.45	26.20	24.40

Fourth quarter of 2015 net income includes the Company's share of a joint venture impairment charge of $21,433 ($32,975 pre-tax).

High and low prices of the Company's common stock are as reported on the New York Stock Exchange.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

Item 9A. *Controls and Procedures*

(a) Evaluation of Disclosure Controls and Procedures – Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Annual Report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this Annual Report are effective to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure. A controls system cannot provide

absolute assurance, however, that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

(b) Management's Report on Internal Control Over Financial Reporting
Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In assessing the effectiveness of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework* (2013). As a result of management's assessment and based on the criteria in the framework, management has concluded that, as of December 31, 2016, the Company's internal control over financial reporting was effective.

(c) Attestation Report of the Registered Public Accounting Firm – The effectiveness of our internal control over financial reporting as of December 31, 2016 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

(d) Changes in Internal Control Over Financial Reporting – No change in our internal control over financial reporting occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. *Other Information*

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

The information appearing in the sections captioned *Information Regarding Nominees and Directors*, *Corporate Governance – Code of Ethics*, *– Board and Board Committees*, and *Section 16(a) Beneficial Ownership Reporting Compliance* of the definitive Proxy Statement relating to our May 3, 2017, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K (the "Form 10-K), is incorporated by reference herein.

We make available free of charge within the Corporate Governance portion of the investor relations section of our web site, at www.aquaamerica.com, our Corporate Governance Guidelines, the Charters of each Committee of our Board of Directors, and our Code of Ethical Business Conduct (the "Code"). Amendments to the Code, and any grant of a waiver from a provision of the Code requiring disclosure under applicable SEC rules, will be disclosed on our web site. The reference to our web site is intended to be an inactive textual reference only, and the contents of such web site are not incorporated by reference herein and should not be considered part of this or any other report that we file with or furnish to the SEC.

Our Executive Officers

The following table and the notes thereto set forth information with respect to our executive officers, including their names, ages, positions with Aqua America and business experience during the last five years:

Name	Age	Position with Aqua America (1)
Christopher H. Franklin	52	President and Chief Executive Officer (July 2015 to present); Executive Vice President and President and Chief Operating Officer, Regulated Operations (January 2012 to July 2015); Regional President – Midwest and Southern Operations and Senior Vice President, Corporate and Public Affairs (January 2010 to January 2012); Regional President, Aqua America – Southern Operations and Senior Vice President, Public Affairs and Customer Operations (January 2007 to January 2010); Vice President, Public Affairs and Customer Operations (July 2002 to January 2007); Vice President, Corporate and Public Affairs (February 1997 to July 2002); Director of Public Affairs (January 1993 to February 1997)
David P. Smeltzer	58	Executive Vice President and Chief Financial Officer (January 2012 to present); Chief Financial Officer (February 2007 to January 2012); Senior Vice President - Finance and Chief Financial Officer (December 1999 to February 2007); Vice President - Finance and Chief Financial Officer (May 1999 to December 1999); Vice President - Rates and Regulatory Relations, Philadelphia Suburban Water Company (March 1991 to May 1999); Vice President - Controller of Philadelphia Suburban Water Company (March 1986 to March 1991)
Richard S. Fox	55	Chief Operating Officer (July 2015 to present); Regional President, Regulated Utilities (January 2012 to July 2015); President Aqua Utilities, Florida, Inc. (August 2011 to January 2012); Vice President, Customer Service (June 2002 to August 2011)
Christopher P. Luning	49	Senior Vice President, General Counsel, and Secretary (April 2012 to present); Vice President Corporate Development and Corporate Counsel (June 2008 to April 2012); Vice President and Deputy General Counsel (May 2005 to June 2008); Assistant General Counsel (March 2003 to May 2005)
William C. Ross	71	Senior Vice President, Engineering and Environmental Affairs (January 2012 to present); Vice President, Engineering and Environmental Affairs (February 2001 to January 2012); Senior Manager Planning and Engineering Philadelphia Suburban Water Company (February 1998 to February 2001)
Robert A. Rubin	54	Senior Vice President, Controller and Chief Accounting Officer (January 2012 to present); Vice President, Controller and Chief Accounting Officer (May 2005 to January 2012); Controller and Chief Accounting Officer (March 2004 to May 2005); Controller (March 1999 to March 2004); Assistant Controller (June 1994 to March 1999); Accounting Manager (June 1989 to June 1994)
Daniel J. Schuller	47	Executive Vice President, Strategy and Corporate Development (July 2015 to present); Investment Principal – J.P. Morgan Asset Management – Infrastructure Investments Group (2007 to 2015)

Prior to January 16, 2004, Aqua Pennsylvania was known as Philadelphia Suburban Water Company.

(1) In addition to the capacities indicated, the individuals named in the above table hold other offices or directorships with subsidiaries of the Company. Officers serve at the discretion of the Board of Directors.

Item 11. *Executive Compensation*

The information appearing in the sections captioned *Executive Compensation* and *Director Compensation* of the definitive Proxy Statement relating to our May 3, 2017, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

Ownership of Common Stock - The information appearing in the section captioned Ownership of Common Stock of the Proxy Statement relating to our May 3, 2017, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

Securities Authorized for Issuance under Equity Compensation Plans - The following table provides information for our equity compensation plans as of December 31, 2016:

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,055,304 (1)	$15.55 (2)	3,952,869
Equity compensation plans not approved by security holders	0	0	0
Total	1,055,304	$15.55	3,952,869

(1) In February 2017, the Board of Directors approved an amendment and restatement of the Company's 2009 Omnibus Equity Compensation Plan, as amended, to reflect changes in applicable auditing standards. The 2009 Plan, as amended and restated, is attached as an exhibit to this Annual Report.

(2) Consists of 427,335 shares issuable upon exercise of outstanding options, 518,696 shares issuable upon conversion of outstanding performance share units, and 109,273 shares issuable upon conversion of outstanding restricted share units.

(3) Calculated based upon outstanding options of 427,335 shares of our common stock.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information appearing in the sections captioned *Corporate Governance – Director Independence* and *– Policies and Procedures For Approval of Related Person Transactions* of the definitive Proxy Statement relating to our May 3, 2017, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

Item 14. *Principal Accountant Fees and Services*

The information appearing in the section captioned *Proposal No. 2 – Services and Fees* of the definitive Proxy Statement relating to our May 3, 2017, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

PART IV

Item 15. *Exhibits and Financial Statement Schedules*

Financial Statements. The consolidated financial statements and supplementary data included in Part II, Item 8 are hereby incorporated by reference herein.

Financial Statement Schedules.

Schedule 1. – Condensed Parent Company Financial Statements. All other schedules are omitted because they are not applicable or not required, or because the required information is included in the consolidated financial statements or notes thereto.

Exhibits, Including Those Incorporated by Reference. A list of exhibits filed as part of this Form 10-K is set forth in the Exhibit Index hereto which is incorporated by reference herein. Where so indicated, exhibits which were previously filed are incorporated by reference. For exhibits incorporated by reference, the location of the exhibit in the previous filing is indicated in the exhibit index.

Item 16. *Form 10-K Summary*

Registrants may voluntarily include a summary of information required by Form 10-K under this Item 16. The Company has elected not to include such summary information in this Annual Report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AQUA AMERICA, INC.

/s/ Christopher H. Franklin
Christopher H. Franklin
President and Chief Executive Officer

Date: February 24, 2017

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report on Form 10-K has been signed below by the following persons on behalf of the Registrant on February 24, 2017 in the capacities indicated below.

Signature	Title
/s/ Christopher H. Franklin Christopher H. Franklin	President and Chief Executive Officer, Director (Principal Executive Officer)
/s/ David P. Smeltzer David P. Smeltzer	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ Robert A. Rubin Robert A. Rubin	Senior Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)
/s/ Carolyn J Burke Carolyn J. Burke	Director
/s/ Nicholas DeBenedictis Nicholas DeBenedictis	Chairman and Director
/s/ Richard H. Glanton Richard H. Glanton	Director
/s/ Lon R. Greenberg Lon R. Greenberg	Director
/s/ William P. Hankowsky William P. Hankowsky	Director
/s/ Wendell F. Holland Wendell F. Holland	Director
/s/ Ellen T. Ruff Ellen T. Ruff	Director

Aqua America, Inc.
Schedule 1 – Condensed Parent Company Financial Statements
Condensed Balance Sheets
(In thousands of dollars)
December 31, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Accounts receivable, net	$ 441	$ 382
Accounts receivable - affiliates	60,264	28,423
Income tax receivable	-	219
Prepayments and other current assets	3,782	3,545
Total current assets	64,487	32,569
Deferred charges and other assets, net	22,231	21,313
Notes receivable - affiliates	345,149	331,604
Accounts receivable - affiliates	109,340	103,891
Deferred income tax asset	67,508	85,089
Investment in subsidiaries	1,920,055	1,745,634
Total assets	$ 2,528,770	$ 2,320,100
Liabilities and Equity		
Stockholders' equity	$ 1,850,068	$ 1,725,927
Long-term debt, excluding current portion, net of debt issuance costs	483,817	420,350
Current liabilities:		
Current portion of long-term debt	26,050	16,050
Accrued interest	3,469	2,495
Accounts payable - affiliates	23,582	21,465
Other accrued liabilities	10,707	16,169
Total current liabilities	63,808	56,179
Other liabilities	131,077	117,644
Total liabilities and equity	$ 2,528,770	$ 2,320,100

The accompanying condensed notes are an integral part of these condensed financial statements.

Aqua America, Inc.

Schedule 1 – Condensed Parent Company Financial Statements

Condensed Statements of Income and Comprehensive Income

(In thousands, except per share amounts)

Years ended December 31, 2016, 2015, and 2014

	2016	2015	2014
Other income	$ 3,301	$ 3,034	$ 4,228
Operating expense and other expenses	4,569	1,440	627
Operating (loss) income	(1,268)	1,594	3,601
Interest expense, net	2,901	1,833	2,160
Other (income) expense	(87)	-	443
Income (loss) before equity in earnings of subsidiaries and income taxes	(4,082)	(239)	998
Equity in earnings of subsidiaries	236,309	201,003	230,209
Income before income taxes	232,227	200,764	231,207
Provision for income taxes	(1,955)	(1,026)	(2,032)
Net income	$ 234,182	$ 201,790	$ 233,239
Comprehensive income	$ 234,164	$ 201,689	$ 233,681
Net income per common share:			
Basic	$ 1.32	$ 1.14	$ 1.32
Diluted	$ 1.32	$ 1.14	$ 1.31
Average common shares outstanding during the period:			
Basic	177,273	176,788	176,864
Diluted	177,846	177,517	177,763

The accompanying condensed notes are an integral part of these condensed financial statements.

Aqua America, Inc.

Schedule 1 – Condensed Parent Company Financial Statements

Condensed Statements of Cash Flows

(In thousands of dollars)

Years ended December 31, 2016, 2015, and 2014

	2016	2015	2014
Net cash flows from operating activities	$ 84,649	$ 152,916	$ 114,465
Cash flows from investing activities:			
Acquisitions of utility systems and other, net	(3,713)	(26,722)	(9,329)
Net proceeds from the sale of utility systems and other assets	205	-	-
Decrease (increase) in investment of subsidiary	(26,470)	(27,596)	744
Other	204	(1,031)	(733)
Net cash flows used in investing activities	(29,774)	(55,349)	(9,318)
Cash flows from financing activities:			
Proceeds from long-term debt	418,957	298,879	170,790
Repayments of long-term debt	(346,050)	(259,158)	(156,000)
Proceeds from issuing common stock	1,388	677	-
Proceeds from exercised stock options	4,260	7,540	7,296
Share-based compensation windfall tax benefits	1,332	1,843	1,422
Repurchase of common stock	(3,028)	(25,247)	(15,756)
Dividends paid on common stock	(130,923)	(121,248)	(112,106)
Other	(811)	(853)	(793)
Net cash flows used in financing activities	(54,875)	(97,567)	(105,147)
Net change in cash and cash equivalents	-	-	-
Cash and cash equivalents at beginning of year	-	-	-
Cash and cash equivalents at end of year	$ -	$ -	$ -

See Note 1 - *Basis of Presentation*

The accompanying condensed notes are an integral part of these condensed financial statements.

Aqua America, Inc.
Notes to Condensed Parent Company Financial Statements
(In thousands of dollars)

Note 1 – *Basis of Presentation* – The accompanying condensed financial statements of Aqua America, Inc. (the "Parent") should be read in conjunction with the consolidated financial statements and notes thereto of Aqua America, Inc. and subsidiaries (collectively, the "Registrant") included in Part II, Item 8 of the Form 10-K. The Parent's significant accounting policies are consistent with those of the Registrant.

The Parent borrows from third parties and provides funds to its subsidiaries, in support of their operations. Amounts owed to the Parent for borrowings under this facility are reflected as inter-company receivables on the condensed balance sheets. The interest rate charged to the subsidiaries is sufficient to cover the Parent's interest costs under its associated borrowings.

As of December 31, 2016 and 2015, the Parent had a current accounts receivable – affiliates balance of $60,264 and $28,423. As of December 31, 2016 and 2015, the Parent had a notes receivable – affiliates balance of $345,149 and $331,604. The changes in these balances represent non-cash adjustments that are recorded through the Parent's investment in subsidiaries.

In the ordinary course of business, the Parent indemnifies a third-party for surety bonds issued on behalf of subsidiary companies, guarantees the performance of one of its regulated utilities in a jurisdiction that requires such guarantees, and guarantees several projects associated with the treatment of water in a jurisdiction.

Note 2 – *Dividends from subsidiaries* – Dividends in the amount of $45,750, $74,866, and $30,972 were paid to the Parent by its wholly-owned subsidiaries during the years ended December 31, 2016, 2015, and 2014, respectively.

Note 3 – *Long-term debt* – the Parent has long-term debt under unsecured note purchase agreements with investors in addition to its $250,000 revolving credit agreement. Excluding amounts due under the revolving credit agreement, the debt maturities of the Parent's long-term debt are as follows:

Year	Debt Maturity
2017	$ 26,050
2018	20,800
2019	50,000
2020	28,200
2021	17,250
Thereafter	343,050

The Parent had a short-term line of credit of $15,000, which expired on December 31, 2015, and was not renewed. Funds borrowed under this line were used to provide working capital. The short-term borrowing activity for the last three years is as follows:

	2016	2015	2014
Balance outstanding at December 31,	$ -	$ -	$ -
Interest rate at December 31,	-	-	-
Average borrowings outstanding	$ -	$ -	$ 583
Weighted-average interest rate	-	-	0.00%
Maximum amount outstanding	$ -	$ -	$ 7,000

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference to			
		Form	File No.	Exhibit(s)	Filing Date
3.1	Amended and Restated Articles of Incorporation of Aqua America, Inc., dated as of May 10, 2012	8-K	001-06659	3.1	May 11, 2012
3.2	Amended and Restated Bylaws of Aqua America, Inc. (as amended effective as of May 10, 2012)	8-K	001-06659	3.2	May 11, 2012
4.1.1	Indenture of Mortgage dated as of January 1, 1941 between Aqua Pennsylvania, Inc. (f/k/a Philadelphia Suburban Water Company) and The Bank of New York Mellon Trust Company, as successor trustee to First Pennsylvania Bank, N.A. (f/k/a The Pennsylvania Company for Insurance on Lives and Granting Annuities)	10-K	001-06659	4.1.1	February 26, 2016
4.1.2	Twenty-fourth Supplemental Indenture dated as of June 1, 1988	10-K	001-06659	4.1.2	February 26, 2016
4.1.3	Twenty-sixth Supplemental Indenture dated as of November1, 1991	10-K	001-06659	4.1.3	February 26, 2016
4.1.4	Twenty-ninth Supplemental Indenture dated as of March 30, 1995	10-Q	001-06659	4.17	May 10, 1995
4.1.5	Thirty-third Supplemental Indenture, dated as of November 15, 1999	10-K	001-06659	4.27	March 29, 2000
4.1.6	Thirty-fifth Supplemental Indenture, dated as of January 1, 2002	10-K	001-06659	4.22	March 20, 2002
4.1.7	Forty-first Supplemental Indenture, dated as of January 1, 2007	10-Q	001-06659	4.1	May 8, 2007
4.1.8	Forty-second Supplemental Indenture, dated as of December 1, 2007	10-K	001-06659	4.36	February 27, 2008
4.1.9	Forty-third Supplemental Indenture, dated as of December 1, 2008	10-K	001-06659	4.37	February 27, 2009
4.1.10	Forty-fourth Supplemental Indenture, dated as of July 1, 2009	10-Q	001-06659	4.38	August 6, 2009
4.1.11	Forty-fifth Supplemental Indenture, dated as of October 15, 2009	10-K	001-06659	4.39	February 26, 2010
4.1.12	Forty-sixth Supplemental Indenture, dated as of October 15, 2010	10-K	001-06659	4.35	February 25, 2011
4.1.13	Forty-seventh Supplemental Indenture, dated as of October 15, 2012	10-K	001-06659	4.24	February 28, 2013
4.1.14	Forty-eighth Supplemental Indenture, dated as of October 1, 2013	10-K	001-06659	4.1.17	March 3, 2014
4.1.15	Form of Supplemental Indenture during and after 2014	10-K	001-06659	4.1.15	February 26, 2016
4.1.15.1	Schedule of Outstanding Supplemental Indentures during and after 2014	^	^	^	^
4.2	Note Purchase Agreement, dated July 31, 2003, by and among the Aqua America, Inc. and the note purchasers thereto	10-Q	001-06659	4.27	November 13, 2003
4.3	Bond Purchase Agreement, dated December 21, 2006, by and among the Chester County Industrial Development Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC	10-Q	001-06659	10.2	May 8, 2007

4.4	Bond Purchase Agreement, dated December 12, 2007, by and among the Montgomery County Industrial Development Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC	10-K	001-06659	10.34	February 27, 2008
4.5	Bond Purchase Agreement, dated December 4, 2008, by and among the Pennsylvania Economic Development Financing Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC	10-K	001-06659	10.35	February 27, 2009
4.6	Bond Purchase Agreement, dated June 30, 2009, by and among the Pennsylvania Economic Development Financing Authority, Aqua Pennsylvania, Inc., Jeffries and Company, Inc., and Janney Montgomery Scott LLC	10-Q	001-06659	10.52	August 6, 2009
4.7	Bond Purchase Agreement , dated October 20, 2009, by and among the Pennsylvania Economic Development Financing Authority, Aqua Pennsylvania, Inc., Jeffries and Company, Inc., Janney Montgomery Scott LLC, and PNC Capital Markets LLC	10-K	001-06659	10.59	February 26, 2010
4.8	Bond Purchase Agreement, dated October 27, 2010, by and among the Pennsylvania Economic Development Financing Authority, Aqua Pennsylvania, Inc., Jeffries and Company, Inc., PNC Capital Markets LLC, and TD Securities (USA) LLC	10-K	001-06659	10.51	February 25, 2011
4.9	Bond Purchase Agreement , dated November 8, 2012, by and among Aqua Pennsylvania, Inc., Teachers Insurance and Annuity Association, John Hancock Life Insurance Company, John Hancock Life Insurance Company of New York, John Hancock Life & Health Insurance Company, The Lincoln National Life Insurance Company, Lincoln Life & Annuity Company of New York, New York Life Insurance Company, New York Life Insurance and Annuity Corporation, Minnesota Life Insurance Company, United Health Care Insurance Company, American Republic Insurance Company, Western Fraternal Life Association	10-K	001-06659	10.54	February 28, 2013
4.10	Bond Purchase Agreement, dated October 24, 2013, by and among Aqua Pennsylvania, Inc., John Hancock Life Insurance Company (U.S.A), John Hancock Life Insurance Company of New York, John Hancock Life & Health Insurance Company, The Lincoln National Life Insurance Company, Thrivent Financial for Lutherans, United Insurance Company of America, Equitable Life & Casualty Insurance Company, Catholic United Financial, and Great Western Insurance Company	10-K	001-06659	10.45	March 3, 2014

4.11	Bond Purchase Agreement, dated December 29, 2014, by and among Aqua Pennsylvania, Inc., Thrivent Financial for Lutherans, State Farm Life Insurance Company, John Hancock Life Insurance Company (U.S.A), Phoenix Life Insurance Company, PHL Variable Insurance Company, United of Omaha Life Insurance Company, Mutual of Omaha Insurance Company, and Companion Life Insurance Company	10-K	001-06659	10.58	February 27, 2015
4.12	Bond Purchase Agreement, dated December 3, 2015 by and among Aqua Pennsylvania, Inc., Thrivent Financial for Lutherans, State Farm Life Insurance Company, John Hancock Life Insurance Company (U.S.A), The Lincoln National Life Insurance Company, Teachers Insurance And Annuity Association Of America, CMFG Life Insurance Company, Genworth Life Insurance Company, Phoenix Life Insurance Company, PHL Variable Insurance Company, United Of Omaha Life Insurance Company, The State Life Insurance Company, Pioneer Mutual Life Insurance Company, MONY Life Insurance Company	10-K	001-06659	4.12	February 26, 2016
4.13	Note Purchase Agreement, dated November 3, 2016, by and among Aqua America Inc. and the note purchasers thereto	^	^	^	^
4.14	Bond Purchase Agreement, dated December 15, 2016 by and among Aqua Pennsylvania, Inc., Teachers Insurance and Annuity Association of America, New York Life Insurance Company, New York Life Insurance and Annuity Corporation, John Hancock Life Insurance Company, American Equity Investment Life Insurance Company, Genworth Life and Annuity Insurance Company, Phoenix Life Insurance Company, PHL Variable Insurance Company, American United Life Insurance Company, The State Life Insurance Company, and Pioneer Mutual Life Insurance Company	^	^	^	^
10.1	Revolving Credit Agreement, dated as of November 30, 2010, between Aqua Pennsylvania, Inc. and PNC Bank, National Association, TD Bank, N.A., and Citizens Bank of Pennsylvania	10-K	001-06659	4.34	February 25, 2011
10.1.1	First Amendment to Revolving Credit Agreement, dated as of November 28, 2011, between Aqua Pennsylvania, Inc. and PNC Bank, National Association, TD Bank, N.A., Citizens Bank of Pennsylvania, and Huntington National Bank	10-K	001-06659	4.25	February 27, 2012

10.1.2	Second Amendment to Revolving Credit Agreement, dated as of November 26, 2012, between Aqua Pennsylvania, Inc. and PNC Bank, National Association, TD Bank, N.A., Citizens Bank of Pennsylvania, and Huntington National Bank	10-K	001-06659	10.53	February 28, 2013
10.1.3	Third Amendment to Revolving Credit Agreement, dated as of November 25, 2013, between Aqua Pennsylvania, Inc. and PNC Bank, National Association, TD Bank, N.A., Citizens Bank of Pennsylvania, and Huntington National Bank	10-K	001-06659	10.34	March 3, 2014
10.1.4	Fourth Amendment to Revolving Credit Agreement dated as of September 29, 2014, between Aqua Pennsylvania, Inc. and PNC Bank, National Association, TD Bank, N.A., Citizens Bank of Pennsylvania, and Huntington National Bank	10-K	001-06659	10.57	February 27, 2015
10.2	Revolving Credit Agreement, dated as of March 23, 2012, between Aqua America, Inc. and PNC Bank, National Association, CoBank, ACB, and Huntington National Bank	10-Q	001-06659	10.60	May 7, 2012
10.2.1	First Amendment to Revolving Credit Agreement , dated as of January 31, 2013, between Aqua America, Inc. and PNC Bank, National Association, CoBank, ACB, and Huntington National Bank	10-Q	001-06659	10.53	November 6, 2014
10.2.2	Second Amendment to Revolving Credit Agreement, dated as of August 20, 2014, between Aqua America, Inc. and PNC Bank, National Association, CoBank, ACB, and Huntington National Bank	10-Q	001-06659	10.54	November 6, 2014
10.2.3	Third Amendment to Revolving Credit Agreement, dated as of February 24, 2016, between Aqua America, Inc. and PNC Bank, National Association, CoBank, ACB, Huntingdon National Bank, and Bank of America, N.A.	10-Q	001-06659	10.2.3	May 6, 2016
10.2.4	Amended and Restated Revolving Credit Agreement, dated as of November 17, 2016 between Aqua Pennsylvania and PNC Bank, National Association, TD Bank, N.A., Citizens Bank of Pennsylvania, and Huntington National Bank	^	^	^	^
10.3	Aqua America, Inc. Deferred Compensation Plan Master Trust Agreement with PNC Bank, National Association, dated as of December 31, 1996*	10-K	001-06659	10.24	March 25, 1997
10.3.1	Amendment 2008-1 to the Aqua America, Inc. Deferred Compensation Plan Master Trust Agreement, dated as of December 15, 2008*	10-K	001-06659	10.50	February 27, 2009
10.4	Aqua America, Inc. 2009 Executive Deferral Plan (as amended and restated effective January 1, 2009)*	S-8	333-156047	4.1	December 10, 2008

10.5	Aqua America, Inc. Supplemental Pension Benefit Plan for Salaried Employees (as amended and restated effective January 1, 2011)*	10-K	001-06659	10.58	February 27, 2012
10.6	Aqua America, Inc. Dividend Reinvestment and Direct Stock Purchase Plan*	S-3	333-197805	N/A	August 1, 2014
10.7	Aqua America, Inc. 2004 Equity Compensation Plan (as amended and restated as of January 1, 2009)*	10-K	001-06659	10.36	February 27, 2009
10.7.1	Form of Incentive Stock Option and Dividend Equivalent Grant Agreement*	10-K	001-06659	10.49	February 27, 2009
10.7.2	Form of Amendment to Incentive Stock Option and Dividend Equivalent Grant Agreements for executive officers *	10-K	001-06659	10.8.2	February 26, 2016
10.8	Aqua America, Inc. 2009 Omnibus Equity Compensation Plan (as amended effective February 22, 2017) *	^	^	^	^
10.8.1	Form of Performance-Based Share Unit Grant for Chief Executive Officer*	10-K	001-06659	10.9.1	February 26, 2016
10.8.2	Performance-Based Share Unit Grant Terms and Conditions for Chief Executive Officer*	10-Q	001-06659	10.51(B)	May 8, 2014
10.9.3	Form of Performance-Based Share Unit Grant for all other executive officers*	10-Q	001-06659	10.36	May 6, 2015
10.8.4	Performance-Based Share Unit Grant Terms and Conditions for all other executive officers*	10-Q	001-06659	10.37	May 6, 2015
10.8.5	Form of Restricted Stock Unit Grant for Chief Executive Officer*	10-K	001-06659	10.9.5	February 26, 2016
10.8.6	Restricted Stock Unit Grant Terms and Conditions for Chief Executive Officer*	10-Q	001-06659	10.52(B)	May 8, 2014
10.8.7	Form of Restricted Stock Unit Grant for all other executive officers*	10-Q	001-06659	10.40	May 6, 2015
10.8.8	Restricted Stock Unit Grant Terms and Conditions for all other executive officers*	10-Q	001-06659	10.41	May 6, 2015
10.9	Aqua America, Inc. 2012 Employee Stock Purchase Plan*	10-K	001-06659	10.10	February 26, 2016
10.10	Aqua America, Inc. and Subsidiaries Annual Cash Incentive Compensation Plan (adopted February 26, 2013)*	10-K	001-06659	10.56	February 28, 2013
10.11	Form of Change in Control Agreement between the Company and executive officers*	10-Q	001-06659	10.1	November 6, 2015
10.11.1	Schedule of Change in Control Agreement between the Company and executive officers*	10-K	001-06659	10.12.1	February 26, 2016
10.12	Change in Control Agreement, dated December 31, 2008, between Aqua America, Inc. and Christopher H. Franklin*	10-K	001-06659	10.46	February 27, 2009
10.13	Non-Employee Directors' Compensation for 2016*	10-K	001-06659	10.16	February 26, 2016
10.14	Employment Agreement, dated June 2, 2015, between Aqua America, Inc. and Christopher Franklin*	8-K	001-06659	10.1	June 3, 2015
21.1	Subsidiaries of Aqua America, Inc.	^	^	^	^

23.1	Consent of Independent Registered Public Accounting Firm – PricewaterhouseCoopers LLP	^	^	^	^
31.1	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934	^	^	^	^
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934	^	^	^	^
32.1	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350	^^	^^	^^	^^
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350	^^	^^	^^	^^
101.INS	XBRL Instance Document	^	^	^	^
101.SCH	XBRL Taxonomy Extension Schema Document	^	^	^	^
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	^	^	^	^
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	^	^	^	^
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	^	^	^	^
101.PRES	XBRL Taxonomy Extension Presentation Linkbase Document	^	^	^	^

In accordance with Item 601(b)(4)(iii)(A) of Regulation S-K, copies of specific instruments defining the rights of holders of long-term debt of the Company or its subsidiaries are not filed herewith. Pursuant to this regulation, we hereby agree to furnish a copy of any such instrument to the SEC upon request.

*Indicates management contract or compensatory plan or arrangement

^ Filed herewith

^^Furnished herewith

Exhibit 4.1.15.1

SCHEDULE OF SUPPLEMENTAL INDENTURES SUBSTANTIALLY IDENTICAL TO FORM OF SUPPLEMENTAL INDENTURE DURING AND AFTER 2014

In accordance with Instruction 2 to Item 601 of Regulation S-K, the Registrant has omitted filing the following Supplemental Indentures by and between Aqua Pennsylvania, Inc. and The Bank of New York Mellon Trust Company, N.A. because they are substantially identical in all material respects to the form of Supplemental Indenture filed as Exhibit 4.1.5 to Aqua America, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2015:

1. Forty-ninth Supplemental Indenture, dated as of December 1, 2014
2. Fiftieth Supplemental Indenture, dated as of November 1, 2015
3. Fifty-first Supplemental Indenture, dated as of November 1, 2016

Aqua America, Inc.

$125,000,000

$35,000,000 3.01% Senior Notes, Series A, due November 3, 2031
$30,000,000 3.19% Senior Notes, Series B, due November 3, 2034
$25,000,000 3.25% Senior Notes, Series C, due November 3, 2035
$10,000,000 3.41% Senior Notes, Series D, due November 3, 2038
$25,000,000 3.57% Senior Notes, Series E, due November 3, 2041

_____

Note Purchase Agreement

_____

Dated as of November 3, 2016

Table of Contents

Aqua America, Inc.
762 W. Lancaster Avenue
Bryn Mawr, Pennsylvania 19010

$35,000,000 3.01% Senior Notes, Series A, due November 3, 2031
$30,000,000 3.19% Senior Notes, Series B, due November 3, 2034
$25,000,000 3.25% Senior Notes, Series C, due November 3, 2035
$10,000,000 3.41% Senior Notes, Series D, due November 3, 2038
$25,000,000 3.57% Senior Notes, Series E, due November 3, 2041

Dated as of
November 3, 2016

To the Purchasers listed in
the attached Schedule A:

Ladies and Gentlemen:

Aqua America, Inc., a Pennsylvania corporation (the *"Company"*), agrees with the Purchasers listed in the attached **Schedule A** (the *"Purchasers"*) to this Note Purchase Agreement (this *"Agreement"*) as follows:

Section 1. Authorization of Notes.

The Company will authorize the issue and sale of (i) $35,000,000 aggregate principal amount of its 3.01% Senior Notes, Series A, due November 3, 2031 (the *"Series A Notes"*); (ii) $30,000,000 aggregate principal amount of its 3.19% Senior Notes, Series B, due November 3, 2034, (the *"Series B Notes"*); (iii) $25,000,000 aggregate principal amount of its 3.25% Senior Notes, Series C, due November 3, 2035 (the *"Series C Notes"*); (iv) $10,000,000 aggregate principal amount of its 3.41% Senior Notes, Series D, due November 3, 2038 (the *"Series D Notes"*); and (v) $25,000,000 aggregate principal amount of its 3.57% Senior Notes, Series E, due November 3, 2041 (the *"Series E Notes"*; and, together with the Series A Notes, the Series B Notes, the Series C Notes, and the Series D Notes, individually a *"Note"* and collectively, the *"Notes"*). The term *"Notes"* shall also include any such notes issued in substitution therefor pursuant to **Section 13** of this Agreement. The Notes shall be substantially in the form set out in **Exhibit 1, Exhibit 2, Exhibit 3, Exhibit 4 and Exhibit 5**, respectively, with such changes therefrom, if any, as may be approved by the Purchasers and the Company. Certain capitalized terms used in this Agreement are defined in **Schedule B**; references to a *"Schedule"* or an *"Exhibit"* are, unless otherwise specified, to a Schedule or an Exhibit attached to this Agreement.

Section 2. Sale and Purchase of Notes.

Section 2.1. Notes. Subject to the terms and conditions of this Agreement, the Company will issue and sell to each Purchaser and each Purchaser will purchase from the Company, at the Closing provided for in **Section 3**, Notes in the principal amount and of the Series specified opposite such Purchaser's name in **Schedule A** at the purchase price of 100% of the principal amount thereof. The obligations of each Purchaser hereunder are several and not joint obligations and each Purchaser shall have no obligation and no liability to any Person for the performance or nonperformance by any other Purchaser hereunder.

Section 3. Closing.

The sale and purchase of the Notes to be purchased by each Purchaser shall occur at the offices of Chapman and Cutler LLP, 111 West Monroe, Chicago, Illinois 60603, at 10:00 a.m. Chicago time, at a closing (the *"Closing"*) on November 3, 2016 or on such other Business Day thereafter on or prior to November 10, 2016 as may be agreed upon by the Company and the Purchasers. At the Closing the Company will deliver to each Purchaser the Notes of the Series to be purchased by such Purchaser in the form of a single Note (or such greater number of Notes in denominations of at least $100,000 as such Purchaser may request) dated the date of the Closing and registered in such Purchaser's name (or in the name of such Purchaser's nominee), against delivery by such Purchaser to the Company or its order of immediately available funds in the amount of the purchase price therefor by wire transfer of immediately available funds for the account of the Company to account number 8541854208, account name Aqua America, Inc., at PNC Bank, N.A., Philadelphia, Pennsylvania, ABA Number 031-000053. If at the Closing the Company shall fail to tender such Notes to any Purchaser as provided above in this **Section 3**, or any of the conditions specified in **Section 4** shall not have been fulfilled to any Purchaser's satisfaction, such Purchaser shall, at such Purchaser's election, be relieved of all further obligations under this Agreement, without thereby waiving any rights such Purchaser may have by reason of such failure by the Company to tender such Notes or any of the conditions specified in **Section 4** not having been fulfilled to such Purchaser's satisfaction.

Section 4. Conditions to Closing.

The obligation of each Purchaser to purchase and pay for the Notes to be sold to such Purchaser at the Closing and the obligation of the Company to issue and sell the Notes to each Purchaser is subject to the fulfillment to such Purchaser's satisfaction and, as to **Section 4.1(b)**, the Company's satisfaction, prior to or at the Closing, of the following conditions:

Section 4.1. Representations and Warranties of the Company and the Purchaser.
(a) The representations and warranties of the Company in this Agreement shall be correct when made and at the time of the Closing.

(b) The representations and warranties of each Purchaser in this Agreement shall be correct when made and at the time of the Closing

Section 4.2. Performance; No Default. The Company shall have performed and complied with all agreements and conditions contained in this Agreement required to be performed or complied with by the Company prior to or at the Closing, and after giving effect to the issue and sale of the Notes (and the application of the proceeds thereof as contemplated by **Section 5.14**), no Default or Event of Default shall have occurred and be continuing.

Section 4.3. Compliance Certificates.

(a) *Officer's Certificate of the Company.* The Company shall have delivered to such Purchaser an Officer's Certificate, dated the date of the Closing, certifying that the conditions specified in **Sections 4.1**, **4.2** and **4.9** have been fulfilled.

(b) *Secretary's Certificate of the Company.* The Company shall have delivered to such Purchaser a certificate certifying as to the resolutions attached thereto and other corporate proceedings relating to the authorization, execution and delivery of the Notes and this Agreement.

Section 4.4. Opinions of Counsel. Such Purchaser shall have received opinions in form and substance satisfactory to such Purchaser, dated the date of the Closing (a) from Christopher P. Luning, Esq., General Counsel of the Company, covering the matters set forth in **Exhibit 4.4(a)** and covering such other matters incident to the transactions contemplated hereby as such Purchaser or such Purchaser's counsel may reasonably request (and the Company hereby instructs its counsel to deliver such opinion to such Purchaser), (b) from Dilworth Paxson, LLP, special counsel to the Company, covering the matters set forth in **Exhibit 4.4(b)** and covering such other matters incident to the transactions contemplated hereby as such Purchaser or such Purchaser's counsel may reasonably request (and the Company hereby instructs its counsel to deliver such opinion to such Purchaser), and (c) from Chapman and Cutler LLP, the Purchasers' special counsel in connection with such transactions, substantially in the form set forth in **Exhibit 4.4(c)** and covering such other matters incident to such transactions as such Purchaser may reasonably request.

Section 4.5. Purchase Permitted by Applicable Law, Etc. On the date of the Closing each purchase of Notes shall (a) be permitted by the laws and regulations of each jurisdiction to which each Purchaser is subject, without recourse to provisions (such as Section 1405(a)(8) of the New York Insurance Law) permitting limited investments by insurance companies without restriction as to the character of the particular investment, (b) not violate any applicable law or regulation (including, without limitation, Regulation T, U or X of the Board of Governors of the Federal Reserve System) and (c) not subject any Purchaser to any tax, penalty or liability under or pursuant to any applicable law or regulation, which law or regulation was not in effect on the date hereof. If requested by any Purchaser, such Purchaser shall have received an Officer's Certificate certifying as to such matters of fact as such Purchaser may reasonably specify to enable such Purchaser to determine whether such purchase is so permitted.

Section 4.6. Related Transactions. The Company shall have consummated the sale of the entire principal amount of the Notes scheduled to be sold on the date of Closing pursuant to this Agreement.

Section 4.7. Payment of Special Counsel Fees. Without limiting the provisions of **Section 15.1**, the Company shall have paid on or before the Closing, the reasonable fees, reasonable charges and reasonable disbursements of the Purchasers' special counsel referred to in **Section 4.4(c)** to the extent reflected in a statement of such counsel rendered to the Company at least one Business Day prior to the Closing.

Section 4.8. Private Placement Numbers. A Private Placement Number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the SVO of the NAIC) shall have been obtained for each Series of the Notes.

Section 4.9. Changes in Corporate Structure. The Company shall not have changed its jurisdiction of incorporation or, except as reflected in **Schedule 4.9**, been a party to any merger or consolidation and shall not have succeeded to all or any substantial part of the liabilities of any other entity, at any time following the date of the most recent financial statements referred to in **Schedule 5.5**.

Section 4.10. Funding Instructions. At least three Business Days prior to the date of the Closing, each Purchaser shall have received written instructions signed by a Responsible Officer on letterhead of the Company confirming the information specified in **Section 3** including (i) the name and address of the transferee bank, (ii) such transferee bank's ABA number and (iii) the account name and number into which the purchase price for the Notes is to be deposited.

Section 4.11. Proceedings and Documents. All corporate and other proceedings in connection with the transactions contemplated by this Agreement and all documents and instruments incident to such transactions shall be satisfactory to such Purchaser and such Purchaser's special counsel, and such Purchaser and such Purchaser's special counsel shall have received all such counterpart originals or certified or other copies of such documents as such Purchaser or such Purchaser's special counsel may reasonably request.

Section 5. Representations and Warranties of the Company.

The Company represents and warrants to each Purchaser that:

Section 5.1. Organization; Power and Authority. The Company is a corporation duly organized and subsisting under the laws of its jurisdiction of incorporation, and is duly qualified to transact business in all jurisdictions in which the conduct of its business requires such qualification, except for such jurisdictions where the failure to so qualify would not have a Material Adverse Effect. The Company has the corporate power and authority to own or hold under lease the properties it purports to own or hold under lease, to transact the business it transacts, to execute and deliver this Agreement and the Notes and to perform the provisions hereof and thereof.

Section 5.2. Authorization, Etc. This Agreement and the Notes have been duly authorized by all necessary corporate action on the part of the Company, and this Agreement constitutes, and upon execution and delivery thereof each Note will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its

terms, except as such enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 5.3. Disclosure. The Company, through its co-agents, RBS Securities Inc. and PNC Capital Markets LLC, has delivered to each Purchaser a copy of a Private Placement Memorandum, dated September, 2016 (the **"Memorandum**"), relating to the transactions contemplated hereby. This Agreement (excluding the representations of the Purchasers in **Section 6** and in **Schedule A**), the Memorandum and the documents, certificates or other writings delivered to the Purchasers by or on behalf of the Company in connection with the transactions contemplated hereby and identified in **Schedule 5.3**, and the financial statements listed in **Schedule 5.5** (this Agreement, the Memorandum and such documents, certificates or other writings and such financial statements delivered to each Purchaser prior to October 4, 2016 being referred to, collectively, as the **"Disclosure Documents"**), taken as a whole, do not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading in light of the circumstances under which they were made. Except as disclosed in the Disclosure Documents, since December 31, 2015, there has been no change in the financial condition, operations, business or properties of the Company or any of its Subsidiaries except changes that individually or in the aggregate could not reasonably be expected to have a Material Adverse Effect.

Section 5.4. Organization and Ownership of Shares of Subsidiaries. (a) **Schedule 5.4** contains (except as noted therein) a complete and correct list of the Company's Subsidiaries, showing, as to each Subsidiary, the correct name thereof, the jurisdiction of its organization, and the percentage of shares of each class of its capital stock or similar equity interests outstanding owned by the Company and each other Subsidiary and showing each Subsidiary that is an Unrestricted Subsidiary.

(b) Except as set forth on **Schedule 5.4(b)**, all of the outstanding shares of capital stock or similar equity interests of each Subsidiary shown in **Schedule 5.4** as being owned by the Company and its Subsidiaries have been validly issued, are fully paid and nonassessable and are owned by the Company or another Subsidiary free and clear of any Lien.

(c) Each Subsidiary identified in **Schedule 5.4** is a corporation or other legal entity duly organized and subsisting or validly existing, as applicable, under the laws of its jurisdiction of organization, and is duly qualified as a foreign corporation or other legal entity in each jurisdiction in which the conduct of its business requires such qualification, except for such jurisdictions where the failure to so qualify would not have a Material Adverse Effect. Each such Subsidiary has the corporate or other power and authority to own or hold under lease the properties it purports to own or hold under lease and to transact the business it transacts.

Section 5.5. Financial Statements. The Company has delivered to each Purchaser copies of the financial statements of the Company and its Subsidiaries listed on **Schedule 5.5**. All of said financial statements (including in each case the related schedules and notes) fairly present in all material respects the consolidated financial position of the Company and its Subsidiaries as of

the respective dates specified in such financial statements and the consolidated results of their operations and cash flows for the respective periods so specified and have been prepared in accordance with GAAP consistently applied throughout the periods involved except as set forth in the notes thereto (subject, in the case of any interim financial statements, to normal year-end adjustments).

Section 5.6. Compliance with Laws, Other Instruments, Etc. The execution, delivery and performance by the Company of this Agreement and the Notes will not (a) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien in respect of any property of the Company or any Subsidiary under, any indenture, mortgage, deed of trust, loan, purchase or credit agreement, lease, corporate charter, regulations or by-laws, or any other Material agreement or instrument to which the Company or any Subsidiary is bound or by which the Company or any Subsidiary or any of their respective properties may be bound or affected, (b) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or Governmental Authority naming or referring to the Company or any Subsidiary, or (c) violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to the Company or any Subsidiary, except as to each of (a), (b) and (c), for any such conflict, default, breach, contravention or violation which would not reasonably be expected to have a Material Adverse Effect.

Section 5.7. Governmental Authorizations, Etc. No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in connection with the execution, delivery or performance by the Company of this Agreement or the Notes.

Section 5.8. Litigation; Observance of Statutes and Orders. (a) There is no action, suit or proceeding pending or, to the knowledge of the Company, threatened against or affecting the Company or any Subsidiary or any property of the Company or any Subsidiary in any court or before any arbitrator of any kind or before or by any Governmental Authority that with respect to which a Material Adverse Effect is probable in accordance with the applicable requirements of accounting for contingencies under Financial Accounting Standards Board's Accounting Standards Codification.

(b) Neither the Company nor any Subsidiary is in default under any order, judgment, decree or ruling of any court, any arbitrator of any kind or any Governmental Authority naming or referring to the Company or is in violation of any applicable law (including without limitation Environmental Laws, the USA Patriot Act or any of the other laws and regulations that are referred to in **Section 5.16**) or, to the knowledge of the Company, any ordinance, rule or regulation of any Governmental Authority, with respect to which default or violation a Material Adverse Effect is probable in accordance with the applicable requirements of accounting for contingencies under Financial Accounting Standards Board's Accounting Standards Codification.

Section 5.9. Taxes. The Company and its Subsidiaries have filed all income tax returns that are required to have been filed in any jurisdiction, and have paid all taxes shown to be due and payable on such returns and all other taxes and assessments payable by them to the extent

such taxes and assessments have become due and payable and before they have become delinquent, except for any taxes and assessments (a) the amount of which is not individually or in the aggregate Material or (b) the amount, applicability or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which the Company or a Subsidiary, as the case may be, has established adequate reserves in accordance with GAAP. The charges, accruals and reserves on the books of the Company and its Subsidiaries in respect of federal, state or other taxes for all fiscal periods are adequate. The federal income tax liabilities of the Company and its Subsidiaries have been determined by an audit by the Internal Revenue Service for the fiscal year ended December 31, 2011 and all amounts owing in respect of such audit have been paid.

Section 5.10. Title to Property; Leases. The Company and its Subsidiaries have good and sufficient title to their respective Material properties, including all such properties reflected in the most recent audited balance sheet referred to in **Section 5.5** or purported to have been acquired by the Company or any Subsidiary after said date (except as sold or otherwise disposed of in the ordinary course of business), in each case free and clear of Liens prohibited by this Agreement, except for those defects in title and Liens that, individually or in the aggregate, would not have a Material Adverse Effect. All Material leases are valid and subsisting and are in full force and effect in all material respects.

Section 5.11. Licenses, Permits, Etc. Except as disclosed in **Schedule 5.11**, the Company and its Subsidiaries own or possess all licenses, permits, franchises, certificates of convenience and necessity, authorizations, patents, copyrights, service marks, trademarks and trade names, or rights thereto, that are Material, without known conflict with the rights of others except for those conflicts, that, individually or in the aggregate, would not have a Material Adverse Effect.

Section 5.12. Compliance with Employee Benefit Plans. (a) The Company and each ERISA Affiliate have operated and administered each Plan in compliance with all applicable laws except for such instances of noncompliance as have not resulted in and could not reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any ERISA Affiliate has incurred any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans (as defined in Section 3 of ERISA), and no event, transaction or condition has occurred or exists that would reasonably be expected to result in the incurrence of any such liability by the Company or any ERISA Affiliate, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate, in either case pursuant to Title I or IV of ERISA or to such penalty or excise tax provisions or to Section 430(k) of the Code, other than such liabilities or Liens as would not be individually or in the aggregate Material.

(b) With respect to Plans subject to Title IV of ERISA (other than Multiemployer Plans) there has been no failure to satisfy the minimum funding standard as provided in Section 302 of ERISA and Section 412 of the Code, there is no Plan in at risk status as defined in Section 430(i)(4) of the Code, there has been no waived funding deficiency within the meaning of Section 302 of ERISA or Section 412 of the Code, and no event or condition exists which presents a Material risk of termination of any such Plan by the PBGC.

(c) The Company and its ERISA Affiliates have not incurred any withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under Section 4201 or 4204 of ERISA in respect of Multiemployer Plans that individually or in the aggregate are Material.

(d) The expected post-retirement benefit obligation (determined as of the last day of the Company's most recently ended fiscal year in accordance with Financial Accounting Standards Board (*"FASB"*) Accounting Standards Codification 715-60 (formerly FASB Statement No. 106), without regard to liabilities attributable to continuation coverage mandated by Section 4980B of the Code) of the Company and its Subsidiaries would not reasonably be expected to have a Material Adverse Effect.

(e) The execution and delivery of this Agreement and the issuance and sale of the Notes hereunder will not involve any transaction that is subject to the prohibitions of Section 406 of ERISA or in connection with which a tax could be imposed pursuant to Section 4975(c)(1)(A)-(D) of the Code. The representation by the Company in the first sentence of this **Section 5.12(e)** is made in reliance upon and subject to the accuracy of each Purchaser's representation in **Section 6.3** as to the sources of the funds to be used to pay the purchase price of the Notes to be purchased by such Purchaser.

(f) The Company and its Subsidiaries do not have any Non-U.S. Plans.

Section 5.13. Private Offering by the Company. Neither the Company nor anyone acting on the Company's behalf has offered the Notes or any similar securities for sale to, or solicited any offer to buy any of the same from, or otherwise approached or negotiated in respect thereof with, any Person other than the Purchasers and not more than twenty-one (21) other Institutional Investors, each of which has been offered the Notes in connection with a private sale for investment. Neither the Company nor anyone acting on its behalf has taken, or will take, any action that would subject the issuance or sale of the Notes to the registration requirements of Section 5 of the Securities Act.

Section 5.14. Use of Proceeds; Margin Regulations. The Company will apply the proceeds of the sale of the Notes for general corporate purposes of the Company (including the repayment of Debt of the Company), and in compliance with all laws referenced in **Section 5.16**. No part of the proceeds from the sale of the Notes hereunder will be used, directly or indirectly, for the purpose of buying or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System (12 CFR 221), or for the purpose of buying or carrying or trading in any securities under such circumstances as to involve the Company in a violation of Regulation X of said Board (12 CFR 224) or to involve any broker or dealer in a violation of Regulation T of said Board (12 CFR 220). Margin stock does not constitute more than 2% of the value of the consolidated assets of the Company and its Subsidiaries and the Company does not have any present intention that margin stock will constitute more than 2% of the value of such assets. As used in this Section, the terms *"margin stock"* and *"purpose of buying or carrying"* shall have the meanings assigned to them in said Regulation U.

Section 5.15. Existing Debts. **Schedule 5.15** sets forth a complete and correct list of all outstanding Debt of the Company and its Subsidiaries as of June 30, 2016, since which date except as described therein there has been no Material change in the amounts, interest rates, sinking funds, installment payments or maturities of the Debt of the Company or its Subsidiaries. Neither the Company nor any Subsidiary is in default and no waiver of default is currently in effect, in the payment of any principal or interest on any Debt of the Company or such Subsidiary, and no event or condition exists with respect to any Debt of the Company or any Subsidiary, the outstanding principal amount of which exceeds $5,000,000, that would permit (or that with notice or the lapse of time, or both, would permit) one or more Persons to cause such Debt to become due and payable before its stated maturity or before its regularly scheduled dates of payment.

Section 5.16. Foreign Assets Control Regulations, Etc. (a) Neither the Company nor any Controlled Entity (i) is a Blocked Person, (ii) has been notified that its name appears or may in the future appear on a State Sanctions List or (iii) is a target of sanctions that have been imposed by the United Nations or the European Union.

(b) Neither the Company nor any Controlled Entity (i) has violated, been found in violation of, or been charged or convicted under, any applicable U.S. Economic Sanctions Laws, Anti-Money Laundering Laws or Anti-Corruption Laws or (ii) to the Company's knowledge, is under investigation by any Governmental Authority for possible violation of any U.S. Economic Sanctions Laws, Anti-Money Laundering Laws or Anti-Corruption Laws.

(c) No part of the proceeds from the sale of the Notes hereunder:

(i) constitutes or will constitute funds obtained on behalf of any Blocked Person or will otherwise be used by the Company or any Controlled Entity, directly or indirectly, (A) in connection with any investment in, or any transactions or dealings with, any Blocked Person, (B) for any purpose that would cause any Purchaser to be in violation of any U.S. Economic Sanctions Laws or (C) otherwise in violation of any U.S. Economic Sanctions Laws;

(ii) will be used, directly or indirectly, in violation of, or cause any Purchaser to be in violation of, any applicable Anti-Money Laundering Laws; or

(iii) will be used, directly or indirectly, for the purpose of making any improper payments, including bribes, to any Governmental Official or commercial counterparty in order to obtain, retain or direct business or obtain any improper advantage, in each case which would be in violation of, or cause any Purchaser to be in violation of, any applicable Anti-Corruption Laws.

(d) The Company has established procedures and controls which it reasonably believes are adequate (and otherwise comply with applicable law) to ensure that the Company and each Controlled Entity is and will continue to be in compliance with all applicable U.S. Economic Sanctions Laws, Anti-Money Laundering Laws and Anti-Corruption Laws.

Section 5.17. Status under Certain Statutes. Neither the Company nor any Subsidiary is an "investment company" registered or required to be registered under the Investment Company Act of 1940, as amended, or is subject to regulation under the Public Utility Holding Company Act of 2005, as amended, the ICC Termination Act of 1995, as amended, or the Federal Power Act, as amended.

Section 5.18. Environmental Matters. (a) Neither the Company nor any Subsidiary has knowledge of any claim or has received any written notice of any claim, and no proceeding has been instituted of which it has received written notice, raising any claim against the Company or any of its Subsidiaries or any of their respective real properties now or formerly owned, leased or operated by any of them, or other assets, alleging damage to the environment or any violation of any Environmental Laws, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect.

(b) Neither the Company nor any Subsidiary has knowledge of any facts which would give rise to any claim, public or private, for violation of Environmental Laws or damage to the environment emanating from, occurring on or in any way related to real properties or to other assets now or formerly owned, leased or operated by any of them or their use, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect.

(c) Neither the Company nor any of its Subsidiaries has stored any Hazardous Materials on real properties now or formerly owned, leased or operated by any of them or has disposed of any Hazardous Materials in each case in a manner contrary to any Environmental Laws and in any manner that could reasonably be expected to result in a Material Adverse Effect.

(d) All buildings on all real properties now owned, leased or operated by the Company or any of its Subsidiaries are in compliance with applicable Environmental Laws, except where failure to comply could not reasonably be expected to result in a Material Adverse Effect.

Section 6. Representations of the Purchasers.

Section 6.1. Purchase for Investment. Each Purchaser severally represents that it is purchasing the Notes for its own account or for one or more separate accounts maintained by it or for the account of one or more pension or trust funds and not with a view to the distribution thereof, *provided* that the disposition of such Purchaser's or such pension or trust funds' property shall at all times be within such Purchaser's or such pension or trust funds' control. Each Purchaser understands that the Notes have not been registered under the Securities Act and may be resold only if registered pursuant to the provisions of the Securities Act or if an exemption from registration is available, except under circumstances where neither such registration nor such an exemption is required by law, and that the Company is not required to register the Notes.

Section 6.2. Accredited Investor. Each Purchaser severally represents that it is an "accredited investor" (as defined in Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act acting for its own account (and not for the account of others) or as a fiduciary or agent for others (which others are also "accredited investors").

Section 6.3. Source of Funds. Each Purchaser severally represents that at least one of the following statements is an accurate representation as to each source of funds (a *"Source"*) to be used by such Purchaser to pay the purchase price of the Notes to be purchased by such Purchaser hereunder:

(a) the Source is an "insurance company general account" (as the term is defined in the United States Department of Labor's Prohibited Transaction Exemption (*"PTE"*) 95-60) in respect of which the reserves and liabilities (as defined by the annual statement for life insurance companies approved by the NAIC (the *"NAIC Annual Statement"*)) for the general account contract(s) held by or on behalf of any employee benefit plan together with the amount of the reserves and liabilities for the general account contract(s) held by or on behalf of any other employee benefit plans maintained by the same employer (or affiliate thereof as defined in PTE 95-60) or by the same employee organization in the general account do not exceed 10% of the total reserves and liabilities of the general account (exclusive of separate account liabilities) plus surplus as set forth in the NAIC Annual Statement filed with such Purchaser's state of domicile; or

(b) the Source is a separate account that is maintained solely in connection with such Purchaser's fixed contractual obligations under which the amounts payable, or credited, to any employee benefit plan (or its related trust) that has any interest in such separate account (or to any participant or beneficiary of such plan (including any annuitant)) are not affected in any manner by the investment performance of the separate account; or

(c) the Source is either (i) an insurance company pooled separate account, within the meaning of PTE 90-1 or (ii) a bank collective investment fund, within the meaning of the PTE 91-38 and, except as disclosed by such Purchaser to the Company in writing pursuant to this clause (c), no employee benefit plan or group of plans maintained by the same employer or employee organization beneficially owns more than 10% of all assets allocated to such pooled separate account or collective investment fund; or

(d) the Source constitutes assets of an "investment fund" (within the meaning of Part VI of PTE 84-14 (the *"QPAM Exemption"*)) managed by a "qualified professional asset manager" or "QPAM" (within the meaning of Part VI of the QPAM Exemption), no employee benefit plan's assets that are managed by the QPAM in such investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Part VI(c)(1) of the QPAM Exemption) of such employer or by the same employee organization and managed by such QPAM, represent more than 20% of the total client assets managed by such QPAM, the conditions of Part I(c) and (g) of the QPAM Exemption are satisfied, neither the QPAM nor a person controlling or controlled by the QPAM maintains an ownership interest in the Company that would cause the QPAM and the Company to be "related" within the meaning of Part VI(h) of the QPAM Exemption and (i) the identity of such QPAM and (ii) the names of any employee benefit plans whose assets in the investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate

(within the meaning of Part VI(c)(1) of the QPAM Exemption) of such employer or by the same employee organization, represent 10% or more of the assets of such investment fund, have been disclosed to the Company in writing pursuant to this clause (d); or

(e) the Source constitutes assets of a "plan(s)" (within the meaning of Part IV(h) of PTE 96-23 (the *"INHAM Exemption"*)) managed by an "in-house asset manager" or "INHAM" (within the meaning of Part IV(a) of the INHAM Exemption), the conditions of Part I(a), (g) and (h) of the INHAM Exemption are satisfied, neither the INHAM nor a person controlling or controlled by the INHAM (applying the definition of "control" in Part IV(d)(3) of the INHAM Exemption) owns a 10% or more interest in the Company and (i) the identity of such INHAM and (ii) the name(s) of the employee benefit plan(s) whose assets constitute the Source have been disclosed to the Company in writing pursuant to this clause (e); or

(f) the Source is a governmental plan; or

(g) the Source is one or more employee benefit plans, or a separate account or trust fund comprised of one or more employee benefit plans, each of which has been identified to the Company in writing pursuant to this clause (g); or

(h) the Source does not include assets of any employee benefit plan, other than a plan exempt from the coverage of ERISA.

As used in this Section 6.3, the terms *"employee benefit plan," "governmental plan,"* and *"separate account"* shall have the respective meanings assigned to such terms in Section 3 of ERISA.

Section 7. Information as to Company.

Section 7.1. Financial and Business Information. The Company shall deliver to each holder of Notes that is an Institutional Investor:

(a) *Quarterly Statements* — within 60 days after the end of each quarterly fiscal period in each fiscal year of the Company (other than the last quarterly fiscal period of each such fiscal year), duplicate copies of,

(i) a consolidated balance sheet of the Company and its Subsidiaries as at the end of such quarter, and

(ii) consolidated statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries, for such quarter and (in the case of the second and third quarters) for the portion of the fiscal year ending with such quarter,

setting forth in each case in comparative form the figures for the corresponding periods in the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP

applicable to quarterly financial statements generally, and certified by a Senior Financial Officer as fairly presenting, in all material respects, the financial position of the companies being reported on and their results of operations and cash flows, subject to changes resulting from year-end adjustments, *provided* that delivery within the time period specified above of copies of the Company's Quarterly Report on Form 10-Q prepared in compliance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this **Section 7.1(a)**;

(b) *Annual Statements* — within 120 days after the end of each fiscal year of the Company, duplicate copies of,

(i) a consolidated balance sheet of the Company and its Subsidiaries, as at the end of such year, and

(ii) consolidated statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries, for such year,

setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP, and accompanied by an opinion thereon (without a "going concern" or similar qualification or exception and without any qualification or exception as to the scope of the audit on which such opinion is based) of independent certified public accountants of recognized national standing, which opinion shall state that such financial statements present fairly, in all material respects, the financial position of the companies being reported upon and their results of operations and cash flows and have been prepared in conformity with GAAP, and that the examination of such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards, and that such audit provides a reasonable basis for such opinion in the circumstances, *provided* that the delivery within the time period specified above of the Company's Annual Report on Form 10-K for such fiscal year (together with the Company's annual report to shareholders, if any, prepared pursuant to Rule 14a-3 under the Exchange Act) prepared in accordance with the requirements therefor and containing the above-described audit opinion and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this **Section 7.1(b);**

(c) *SEC and Other Reports* — promptly upon their becoming available, one copy of (i) each financial statement, report, notice, or proxy statement sent by the Company or any Subsidiary to public securities holders generally, and (ii) each regular or periodic report, each registration statement that shall have become effective (without exhibits except as expressly requested by such holder), and each final prospectus and all amendments thereto filed by the Company or any Subsidiary with the Securities and Exchange Commission;

(d) *Notice of Default or Event of Default* — promptly, and in any event within five days after a Responsible Officer becomes aware of the existence of any Default or

Event of Default, a written notice specifying the nature and period of existence thereof and what action the Company is taking or proposes to take with respect thereto;

(e) *Employee Benefits Matters* — promptly, and in any event within five days after a Responsible Officer becomes aware of any of the following, a written notice setting forth the nature thereof and the action, if any, that the Company or an ERISA Affiliate proposes to take with respect thereto:

(i) with respect to any Plan, any reportable event, as defined in Section 4043(c) of ERISA and the regulations thereunder, for which notice thereof has not been waived pursuant to such regulations in effect on the date thereof, if such reportable event would reasonably be expected to have a Material Adverse Effect; or

(ii) the taking by the PBGC of steps to institute, or the threatening by the PBGC of the institution of, proceedings under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the receipt by the Company or any ERISA Affiliate of a notice from a Multiemployer Plan that such action has been taken by the PBGC with respect to such Multiemployer Plan; or

(iii) any event, transaction or condition that could result in the incurrence of any liability by the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or the imposition of a penalty or excise tax under the provisions of the Code relating to employee benefit plans, or the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or such penalty or excise tax provisions, if such liability or Lien, taken together with any other such liabilities or Liens then existing, would reasonably be expected to have a Material Adverse Effect;

(f) *Notices from Governmental Authority* — promptly, and in any event within 30 days of receipt thereof, copies of any notice to the Company or any Subsidiary from any federal or state Governmental Authority relating to any order, ruling, statute or other law or regulation that could reasonably be expected to have a Material Adverse Effect;

(g) *Resignation or Replacement of Auditors* — within ten days following the date on which the Company's auditors resign or the Company elects to change auditors, as the case may be, notification thereof, together with such supporting information as the Required Holders may request; and

(h) *Requested Information* — with reasonable promptness, such other data and information relating to the business, operations, affairs, financial condition, assets or properties of the Company or any of its Subsidiaries or relating to the ability of the

Company to perform its obligations hereunder and under the Notes as from time to time may be reasonably requested by any such holder of Notes.

In addition to the foregoing, in the event that one or more Unrestricted Subsidiaries shall either (i) own more than 10% of the Consolidated Total Assets of the Company and its Subsidiaries, or (ii) account for more than 10% of the consolidated gross revenues of the Company and its Subsidiaries, determined in each case in accordance with GAAP, then, within the respective periods provided in **Section 7.1(a)** and **(b)** above, the Company shall deliver to each holder of Notes that is an Institutional Investor, unaudited financial statements of the character and for the dates and periods as in said **Sections 7.1(a)** and **(b**) covering such group of Unrestricted Subsidiaries (on a consolidated basis), together with a consolidating statement reflecting eliminations or adjustments required to reconcile the financial statements of such group of Unrestricted Subsidiaries to the financial statements delivered pursuant to **Sections 7.1(a)** and **(b)**.

Section 7.2. Officer's Certificate. Each set of financial statements delivered to a holder of Notes pursuant to **Section 7.1(a)** or **Section 7.1(b)** hereof shall be accompanied by a certificate of a Senior Financial Officer:

(a) *Covenant Compliance* — setting forth the information (including detailed calculations) required in order to establish whether the Company was in compliance with the requirements of **Section 10.1**, **Section 10.2(k)**, **Section 10.3, Section 10.4, Section 10.5, Section 10.6**, **Section 10.10** and **Section 10.11** hereof, inclusive, during the quarterly or annual period covered by the financial statements then being furnished (including with respect to each such Section, where applicable, the calculations of the maximum or minimum amount, ratio or percentage, as the case may be, permissible under the terms of such Sections, and the calculation of the amount, ratio or percentage then in existence);

(b) *Event of Default* — certifying that such officer has reviewed the relevant terms hereof and has made, or caused to be made, under his or her supervision, a review of the transactions and conditions of the Company and its Subsidiaries from the beginning of the quarterly or annual period covered by the statements then being furnished to the date of the certificate and that such review shall not have disclosed the existence during such period of any condition or event that constitutes a Default or an Event of Default or, if any such condition or event existed or exists (including, without limitation, any such event or condition resulting from the failure of the Company or any Subsidiary to comply with any Environmental Law), specifying the nature and period of existence thereof and what action the Company shall have taken or proposes to take with respect thereto; and

(c) *Subsidiary Guarantors* – setting forth a list of all Subsidiaries that are Subsidiary Guarantors and certifying that each Subsidiary that is required to be a Subsidiary Guarantor pursuant to **Section 9.7** is a Subsidiary Guarantor, in each case, as of the date of such certificate of Senior Financial Officer.

Section 7.3. *Inspection*. The Company shall permit the representatives of each holder of Notes that is an Institutional Investor:

(a) *No Default* — if no Default or Event of Default then exists, at the expense of such holder and upon reasonable prior notice to the Company, to visit the principal executive office of the Company, to discuss the affairs, finances and accounts of the Company and its Subsidiaries with the Company's officers, and (with the consent of the Company, which consent will not be unreasonably withheld) to visit the other offices and properties of the Company and each Restricted Subsidiary, all at such reasonable times during normal business hours and as often as may be reasonably requested in writing; and

(b) *Default* — if a Default or Event of Default then exists, at the expense of the Company, to visit and inspect any of the offices or properties of the Company or any Subsidiary, to examine all their respective books of account and non-privileged records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers and independent public accountants (and by this provision the Company authorizes said accountants to discuss the affairs, finances and accounts of the Company and its Subsidiaries), all at such times and as often as may be requested.

Section 8. Payment of the Notes.

Section 8.1. *Maturity.*

(a) As provided therein, the entire unpaid principal balance of each Series A Note shall be due and payable on November 3, 2031.

(b) As provided therein, the entire unpaid principal balance of each Series B Note shall be due and payable on November 3, 2034.

(c) As provided therein, the entire unpaid principal balance of each Series C Note shall be due and payable on November 3, 2035.

(d) As provided therein, the entire unpaid principal balance of each Series D Note shall be due and payable on November 3, 2038.

(e) As provided therein, the entire unpaid principal balance of each Series E Note shall be due and payable on November 3, 2041.

Section 8.2. *Optional Prepayments with Make-Whole Amount*. The Company may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the Notes, in an amount not less than 10% of the aggregate principal amount of the Notes then outstanding in the case of a partial prepayment, at 100% of the principal amount so prepaid, together with interest accrued thereon to the date of such prepayment, plus the Make-Whole Amount determined for the prepayment date with respect to such principal amount. The Company will give each holder of Notes written notice of each optional prepayment under this

Section 8.2 not less than 10 days and not more than 60 days prior to the date fixed for such prepayment unless the Company and the Required Holders agree to another time period pursuant to **Section 17**. Each such notice shall specify such date, the aggregate principal amount of the Notes to be prepaid on such date, the principal amount of each Note held by such holder to be prepaid (determined in accordance with **Section 8.3**), and the interest to be paid on the prepayment date with respect to such principal amount being prepaid, and shall be accompanied by a certificate of a Senior Financial Officer as to the estimated Make-Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two Business Days prior to such prepayment, the Company shall deliver to each holder of Notes a certificate of a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified prepayment date.

Section 8.3. Allocation of Partial Prepayments. In the case of each partial prepayment of the Notes pursuant to **Section 8.2**, the principal amount of the Notes to be prepaid shall be allocated among all of the Notes at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof not theretofore called for prepayment.

Section 8.4. Maturity; Surrender, Etc. In the case of each prepayment of Notes pursuant to this **Section 8**, the principal amount of each Note to be prepaid shall mature and become due and payable on the date fixed for such prepayment, together with interest on such principal amount accrued to such date and the applicable Make-Whole Amount, if any. From and after such date, unless the Company shall fail to pay such principal amount when so due and payable, together with the interest and Make-Whole Amount, if any, as aforesaid, interest on such principal amount shall cease to accrue. Any Note paid or prepaid in full shall be surrendered to the Company and cancelled and shall not be reissued, and no Note shall be issued in lieu of any prepaid principal amount of any Note.

Section 8.5. Purchase of Notes. The Company will not and will not permit any Affiliate, directly or indirectly controlled by the Company, to purchase, redeem, prepay or otherwise acquire, directly or indirectly, any of the outstanding Notes except (a) upon the payment or prepayment of the Notes in accordance with the terms of this Agreement and the Notes or (b) pursuant to an offer to purchase made by the Company or an Affiliate pro rata to the holders of all Notes at the time outstanding upon the same terms and conditions. Any such offer shall provide each holder with sufficient information to enable it to make an informed decision with respect to such offer, and shall remain open for at least 15 Business Days. If the holders of more than 10% of the principal amount of the Notes then outstanding accept such offer, the Company shall promptly notify the remaining holders of such fact and the expiration date for the acceptance by holders of Notes of such offer shall be extended by the number of days necessary to give each such remaining holder at least 10 Business Days from its receipt of such notice to accept such offer. The Company will promptly cancel all Notes acquired by it or any Affiliate directly or indirectly controlled by the Company pursuant to any payment, prepayment or purchase of Notes pursuant to any provision of this Agreement and no Notes may be issued in substitution or exchange for any such Notes.

Section 8.6. Make-Whole Amount. The term *"Make-Whole Amount"* means, with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Note over the amount of such Called Principal, *provided* that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

"Called Principal" means, with respect to any Note of any Series, the principal of such Note that is to be prepaid pursuant to **Section 8.2** or has become or is declared to be immediately due and payable pursuant to **Section 12.1**, as the context requires.

"Discounted Value" means, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Notes of such Series is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"Reinvestment Yield" means, with respect to the Called Principal of any Note, the sum of (a) 0.50% plus (b) the yield to maturity implied by the "Ask Yield(s)" reported as of 10:00 a.m. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page PX1" (or such other display as may replace Page PX1) on Bloomberg Financial Markets for the most recently issued actively traded on-the-run U.S. Treasury securities (*"Reported"*) having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. If there are no such U.S. Treasury securities Reported having a maturity equal to such Remaining Average Life, then such implied yield to maturity will be determined by (a) converting U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between the "Ask Yield(s)" Reported for the applicable most recently issued actively traded on-the-run U.S. Treasury securities with the maturities (1) closest to and greater than such Remaining Average Life and (2) closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable Note.

If such yields are not Reported or the yields Reported as of such time are not ascertainable (including by way of interpolation), then "Reinvestment Yield" means, with respect to the Called Principal of any Note, the sum of (x) 0.50% plus (y) the yield to maturity implied by the U.S. Treasury constant maturity yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (or any comparable successor publication) for the U.S. Treasury constant maturity having a term equal to the Remaining Average Life of such Called Principal as of such Settlement Date. If there is no such U.S. Treasury constant maturity having a term equal to such Remaining Average Life, such implied yield to maturity will be determined by interpolating linearly between (1) the U.S. Treasury constant maturity so reported with the term closest to and greater than such Remaining Average Life and (2) the U.S. Treasury constant maturity so reported with the term closest to and

less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable Note.

"Remaining Average Life" means, with respect to any Called Principal, the number of years obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years, computed on the basis of a 360-day year comprised of twelve 30-day months and calculated to two decimal places, that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"Remaining Scheduled Payments" means, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, *provided* that if such Settlement Date is not a date on which interest payments are due to be made under such Note, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to **Section 8.4** or **Section 12.1**.

"Settlement Date" means, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to **Section 8.2** or has become or is declared to be immediately due and payable pursuant to **Section 12.1**, as the context requires.

Section 8.7. Change in Control.

(a) *Notice of Change in Control or Control Event.* The Company will, within five Business Days after any Responsible Officer has knowledge of the occurrence of any Change in Control or Control Event, give written notice of such Change in Control or Control Event to each holder of Notes unless notice in respect of such Change in Control (or the Change in Control contemplated by such Control Event) shall have been given pursuant to subparagraph (b) of this **Section 8.7.** If a Change in Control has occurred, such notice shall contain and constitute an offer to prepay Notes as described in subparagraph (c) of this **Section 8.7** and shall be accompanied by the certificate described in subparagraph (g) of this **Section 8.7**.

(b) *Condition to Company Action.* The Company will not take any action that consummates or finalizes a Change in Control unless (i) at least 20 days prior to such action it shall have given to each holder of Notes written notice containing and constituting an offer to prepay Notes as described in subparagraph (c) of this **Section 8.7**, accompanied by the certificate described in subparagraph (g) of this **Section 8.7**, and (ii) contemporaneously with such action, it prepays all Notes required to be prepaid in accordance with this **Section 8.7**.

(c) *Offer to Prepay Notes.* The offer to prepay Notes contemplated by subparagraphs (a) and (b) of this **Section 8.7** shall be an offer to prepay, in accordance with and subject to this **Section 8.7**, all, but not less than all, the Notes held by each holder (in this case only, *"holder"* in respect of any Note registered in the name of a nominee for a disclosed

beneficial owner shall mean such beneficial owner) on a date specified in such offer (the *"Proposed Prepayment Date"*). If such Proposed Prepayment Date is in connection with an offer contemplated by subparagraph (a) of this **Section 8.7**, such date shall be not less than 20 days and not more than 60 days after the date of such offer (if the Proposed Prepayment Date shall not be specified in such offer, the Proposed Prepayment Date shall be the 30th day after the date of such offer). For the avoidance of doubt, a holder of Notes may accept a prepayment offer contemplated by this **Section 8.7** with respect to one Series of Notes and reject such prepayment offer with respect to any other Series of Notes.

(d) *Acceptance/Rejection.* A holder of Notes may accept the offer to prepay made pursuant to this **Section 8.7** by causing a notice of such acceptance to be delivered to the Company at least 5 days prior to the Proposed Prepayment Date. A failure by a holder of Notes to respond to an offer to prepay made pursuant to this **Section 8.7** shall be deemed to constitute an acceptance of such offer by such holder.

(e) *Prepayment.* Prepayment of the Notes to be prepaid pursuant to this **Section 8.7** shall be at 100% of the principal amount of such Notes together with interest on such Notes accrued to the date of prepayment. On the Business Day preceding the date of prepayment, the Company shall deliver to each holder of Notes being prepaid a statement showing the amount due in connection with such prepayment and setting forth the details of the computation of such amount. The prepayment shall be made on the Proposed Prepayment Date except as provided in subparagraph (f) of this **Section 8.7**.

(f) *Deferral Pending Change in Control.* The obligation of the Company to prepay Notes pursuant to the offers required by subparagraph (c) and accepted in accordance with subparagraph (d) of this **Section 8.7** is subject to the occurrence of the Change in Control in respect of which such offers and acceptances shall have been made. In the event that such Change in Control does not occur on the Proposed Prepayment Date in respect thereof, the prepayment shall be deferred until and shall be made on the date on which such Change in Control occurs. The Company shall keep each holder of Notes reasonably and timely informed of (i) any such deferral of the date of prepayment, (ii) the date on which such Change in Control and the prepayment are expected to occur, and (iii) any determination by the Company that efforts to effect such Change in Control have ceased or been abandoned (in which case the offers and acceptances made pursuant to this **Section 8.7** in respect of such Change in Control shall be deemed rescinded).

(g) *Officer's Certificate.* Each offer to prepay the Notes pursuant to this **Section 8.7** shall be accompanied by a certificate, executed by a Senior Financial Officer of the Company and dated the date of such offer, specifying: (i) the Proposed Prepayment Date; (ii) that such offer is made pursuant to this **Section 8.7**; (iii) the principal amount of each Note offered to be prepaid; (iv) the interest that would be due on each Note offered to be prepaid, accrued to the Proposed Prepayment Date; (v) that the conditions of this **Section 8.7** have been fulfilled; (vi) in reasonable detail, the nature and date of the Change in Control; and (vii) that the failure to respond to such offer of prepayment shall constitute an acceptance of such offer.

(h) *"Change in Control" Defined.* *"Change in Control"* means each and every issue, sale or other disposition of shares of stock of the Company which results in any person (as such term is used in section 13(d) and section 14(d)(2) of the Exchange Act as in effect on the date of the Closing) or persons constituting a group (as such term is used in Rule 13d-5 under the Exchange Act as in effect on the date of the Closing), becoming the "beneficial owners" (as such term is used in Rule 13d-3 under the Exchange Act as in effect on the date of the Closing), directly or indirectly, of more than 50% of the total voting power of all classes then outstanding of the Company's voting stock.

(i) *"Control Event" Defined.* *"Control Event"* means:

(a) the execution by the Company or any of its Subsidiaries or Affiliates of any agreement or binding letter of intent with respect to any proposed transaction or event or series of transactions or events which, individually or in the aggregate, could reasonably be expected to result in a Change in Control;

(b) the execution of any written agreement which, when fully performed by the parties thereto, would result in a Change in Control; or

(c) the making of any written offer by any person (as such term is used in section 13(d) and section 14(d)(2) of the Exchange Act as in effect on the date of the Closing) or persons constituting a group (as such term is used in Rule 13d-5 under the Exchange Act as in effect on the date of the Closing) to the holders of the common stock of the Company, which offer, if accepted by the requisite number of holders, would result in a Change in Control unless such offer is rejected or expires pursuant to its terms prior to the date on which notice of such Change in Control is required to be delivered pursuant to **Section 8.7(a)**.

Section 9. Affirmative Covenants.

The Company covenants that so long as any of the Notes are outstanding:

Section 9.1. *Compliance with Law*. Without limiting **Section 10.12**, the Company will, and will cause each of its Subsidiaries to, comply with all laws, ordinances or governmental rules or regulations to which each of them is subject, including, without limitation, ERISA, Environmental Laws, the USA PATRIOT Act and the other laws and regulations that are referred to in **Section 5.16**, and will obtain and maintain in effect all licenses, certificates, permits, certificates of convenience and necessity, franchises and other governmental authorizations necessary to the ownership of their respective properties or to the conduct of their respective businesses, in each case to the extent necessary to ensure that non-compliance with such laws, ordinances or governmental rules or regulations or failures to obtain or maintain in effect such licenses, certificates, permits, certificates of convenience and necessity, franchises and other governmental authorizations would not reasonably be expected, individually or in the aggregate, to have a materially adverse effect on the business, operations, affairs, financial condition, properties or assets of the Company and its Subsidiaries taken as a whole.

Section 9.2. Insurance. The Company will, and will cause each of its Subsidiaries to, maintain, with financially sound and reputable insurers, insurance with respect to their respective properties and businesses against such casualties and contingencies, of such types, on such terms and in such amounts (including deductibles, co-insurance and self-insurance, if adequate reserves are maintained with respect thereto) as is customary in the case of entities of established reputations engaged in the same or a similar business and similarly situated.

Section 9.3. Maintenance of Properties. The Company will, and will cause each of its Subsidiaries to, maintain and keep, or cause to be maintained and kept, their respective properties in good repair, working order and condition (other than ordinary wear and tear), so that the business carried on in connection therewith may be properly conducted at all times, *provided* that this **Section 9.3** shall not prevent the Company or any Subsidiary from discontinuing the operation and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business and the Company has concluded that such discontinuance would not, individually or in the aggregate, have a materially adverse effect on the business, operations, affairs, financial condition, properties or assets of the Company and its Subsidiaries taken as a whole.

Section 9.4. Payment of Taxes. The Company will, and will cause each of its Subsidiaries to, file all income tax or similar tax returns required to be filed in any jurisdiction and to pay and discharge all taxes shown to be due and payable on such returns and all other taxes, assessments, governmental charges, or levies payable by any of them, to the extent such taxes, assessments, charges, and levies have become due and payable and before they have become delinquent; *provided* that neither the Company nor any Subsidiary need pay any such tax, assessment, charge or levy if (i) the amount, applicability or validity thereof is contested by the Company or such Subsidiary on a timely basis in good faith and in appropriate proceedings, and the Company or a Subsidiary has established adequate reserves therefor in accordance with GAAP on the books of the Company or such Subsidiary or (ii) the nonpayment of all such taxes, assessments, charges or levies in the aggregate would not reasonably be expected to have a materially adverse effect on the business, operations, affairs, financial condition, properties or assets of the Company and its Subsidiaries taken as a whole.

Section 9.5. Corporate Existence, Etc. Subject to **Sections 10.3** and **10.4**, the Company will at all times preserve and keep in full force and effect its corporate existence, and will at all times preserve and keep in full force and effect the corporate existence of each of its Restricted Subsidiaries (unless merged into the Company or a Wholly-Owned Restricted Subsidiary) and all rights and franchises of the Company and its Restricted Subsidiaries unless, in the good faith judgment of the Company, the termination of or failure to preserve and keep in full force and effect such corporate existence, right or franchise would not, individually or in the aggregate, have a materially adverse effect on the business, operations, affairs, financial condition, properties or assets of the Company and its Restricted Subsidiaries taken as a whole.

Section 9.6. Designation of Subsidiaries. The Company may from time to time cause any Subsidiary acquired after the date of this Agreement to be designated as an Unrestricted Subsidiary or any Unrestricted Subsidiary to be designated as a Restricted Subsidiary, *provided, however,* that at the time of such designation and immediately after giving effect thereto, no

Default or Event of Default would exist under the terms of this Agreement, and *provided, further,* that once a Subsidiary has been designated an Unrestricted Subsidiary, it shall not thereafter be redesignated as a Restricted Subsidiary on more than one occasion. Within ten days following any designation described above, the Company will deliver to each Purchaser a notice of such designation accompanied by a certificate signed by a Senior Financial Officer of the Company certifying compliance with all requirements of this **Section 9.6** and setting forth all information required in order to establish such compliance.

Section 9.7. Subsidiary Guaranty. (a) If at any time any Subsidiary of the Company shall become a co-obligor under, or guarantor of Debt outstanding under, any Material Credit Facility (a *"Subsidiary Guarantor"*), then concurrently with any such event the Subsidiary Guarantor shall execute and deliver to the holders of the Notes an unconditional guarantee of the Notes which shall be in form and substance satisfactory to the Required Holders, and (b) deliver such proof of corporate or other action, incumbency of officers, opinions of counsel and other documents as is consistent with those delivered by the Company pursuant to **Section 4** on the Closing Date or as the Required Holders shall have reasonably requested.

Section 10. Negative Covenants.

The Company covenants that so long as any of the Notes are outstanding:

Section 10.1. Limitation on Debt. The Company will not permit Consolidated Debt (determined as of the last day of each fiscal quarter) to exceed 65% of Consolidated Total Capitalization as of such date.

Section 10.2. Limitation on Liens. The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly create, incur, assume or permit to exist (upon the happening of a contingency or otherwise) any Lien on or with respect to any property or asset (including, without limitation, any document or instrument in respect of goods or accounts receivable) of the Company or any such Restricted Subsidiary, whether now owned or held or hereafter acquired, or any income or profits therefrom, or assign or otherwise convey any right to receive income or profits, except:

(a) Liens for taxes, assessments or other governmental charges that are not yet due and payable or the payment of which is not at the time required by **Section 9.4**; *provided,* any such tax, assessment or other governmental charge shall be paid prior to the commencement of any proceedings to foreclose any Lien related thereto;

(b) any attachment or judgment Lien, unless the judgment it secures shall not, within 60 days after the entry thereof, have been discharged or execution thereof stayed pending appeal, or shall not have been discharged within 60 days after the expiration of any such stay;

(c) Liens incidental to the conduct of business or the ownership of properties and assets (including landlords', carriers', warehousemen's, mechanics', materialmen's and other similar Liens for sums not yet due and payable or which are being contested in

good faith by appropriate proceedings diligently conducted) and Liens to secure the performance of bids, tenders, leases, or trade contracts, or to secure statutory obligations (including obligations under workers compensation, unemployment insurance and other social security legislation), surety or appeal bonds or other Liens incurred in the ordinary course of business and not in connection with the borrowing of money;

(d) leases or subleases granted to others, zoning restrictions, easements, rights-of-way, restrictions and other similar charges or encumbrances, in each case incidental to the ownership of property or assets or the ordinary conduct of the business of the Company or any of its Restricted Subsidiaries, *provided* that such Liens do not materially impair the use of such property or materially detract from the value of such property and which are not violated in any material respect by the existing or proposed use by the Company and its Subsidiaries of the properties subject to such Liens;

(e) Liens securing Debt of a Restricted Subsidiary to the Company or to a Wholly-Owned Restricted Subsidiary;

(f) Liens created under indentures, mortgages and deeds of trust securing Debt of Restricted Subsidiaries;

(g) Liens incurred after the date of Closing (including Liens of Capital Lease Obligations) given to secure the payment of all or any portion of the purchase price incurred in connection with the acquisition, construction or improvement of property (other than accounts receivable) useful and intended to be used in carrying on the business of the Company or a Restricted Subsidiary, including Liens existing on such property at the time of acquisition or construction thereof, or Liens incurred within 180 days of such acquisition or the completion of such construction or improvement, *provided* that (i) the Lien shall attach solely to the property acquired, purchased, constructed or improved and, if required by the terms of the instrument originally creating such Lien, other property which is an improvement to or is acquired for specific use in connection with such acquired property; (ii) at the time of acquisition, construction or improvement of such property, the aggregate amount remaining unpaid on all Debt secured by Liens on such property, whether or not assumed by the Company or a Restricted Subsidiary, shall not exceed the lesser of (y) the cost of such acquisition, construction or improvement or (z) the Fair Market Value of such property; and (iii) at the time of such incurrence and after giving effect thereto, no Default or Event of Default would exist;

(h) any Lien existing on property of a Person immediately prior to its being consolidated with or merged into the Company or a Restricted Subsidiary or its becoming a Restricted Subsidiary, or any Lien existing on any property acquired by the Company or any Restricted Subsidiary at the time such property is so acquired (whether or not the Debt secured thereby shall have been assumed), *provided* that (i) no such Lien shall have been created or assumed in contemplation of such consolidation or merger or such Person's becoming a Restricted Subsidiary or such acquisition of property, (ii) each such Lien shall extend solely to the item or items of property so acquired and, if required by

the terms of the instrument originally creating such Lien, other property which is an improvement to or is acquired for specific use in connection with such acquired property, and (iii) at the time of such incurrence and after giving effect thereto, no Default or Event of Default would exist;

(i) Liens granted by the Company or its Restricted Subsidiaries to secure obligations of the Company or its Restricted Subsidiaries incurred in connection with loans or advances made to the Company or its Restricted Subsidiaries by Governmental Authorities;

(j) any extensions, renewals or replacements of any Lien permitted by the preceding subparagraphs (g) and (i) of this **Section 10.2**, *provided* that (i) no additional property shall be encumbered by such Liens, (ii) the unpaid principal amount of the Debt or other obligations secured thereby shall not be increased on or after the date of any extension, renewal or replacement, and (iii) at such time and immediately after giving effect thereto, no Default or Event of Default shall have occurred and be continuing; and

(k) in addition to the Liens permitted by the preceding subparagraphs (a) through (j), inclusive, of this **Section 10.2**, Liens securing Debt of the Company or any Restricted Subsidiary, *provided* that the sum of (i) unsecured Debt of Restricted Subsidiaries (other than Debt owing to the Company or a Wholly-Owned Restricted Subsidiary), (ii) Debt of Unrestricted Subsidiaries (other than Debt owing to the Company or a Wholly-Owned Unrestricted Subsidiary) and (iii) the aggregate principal amount of Debt secured by Liens pursuant to this **Section 10.2(k)** shall not exceed 15% of Consolidated Net Worth; *provided further,* no Liens pursuant to this **Section 10.2(k)** shall secure any Material Credit Facility, whether now existing or existing in the future, or related Guaranties.

Section 10.3. Sales of Assets. The Company will not, and will not permit any Restricted Subsidiary to, sell, lease or otherwise dispose of any substantial part (as defined below) of the assets of the Company and its Restricted Subsidiaries (including, without limitation, accounts receivable, leasehold interests and the capital stock or other equity interests in any Restricted Subsidiary); *provided, however,* that the Company or any Restricted Subsidiary may sell, lease or otherwise dispose of assets constituting a substantial part of the assets of the Company and its Restricted Subsidiaries if such assets are sold for cash in an arms length transaction for Fair Market Value and, at such time and after giving effect thereto, no Default or Event of Default shall have occurred and be continuing and an amount equal to the Net Proceeds received from such sale, lease or other disposition (but excluding any portion of the Net Proceeds which are attributable to assets which constitute less than a substantial part of the assets of the Company and its Restricted Subsidiaries) shall be used, in any combination:

(1) within three years of such sale, lease or disposition to acquire productive assets used or useful in carrying on the business of the Company and its Restricted Subsidiaries and having a value at least equal to the value of such assets sold, leased or otherwise disposed of; or

(2) to prepay or retire *first,* Senior Debt secured by a Lien on property of the Company and/or its Restricted Subsidiaries and *second,* unsecured Senior Debt of the Company and/or its Restricted Subsidiaries; *provided* that in the case of any such prepayment of unsecured Senior Debt, the Notes shall be prepaid pro rata with all unsecured Senior Debt and in accordance with **Section 8.2** of this Agreement.

As used in this **Section 10.3**, a sale, lease or other disposition of assets shall be deemed to be a *"substantial part"* of the assets of the Company and its Restricted Subsidiaries if the book value of such assets, when added to the book value of all other assets sold, leased or otherwise disposed of by the Company and its Restricted Subsidiaries during such fiscal year, exceeds 15% of the book value of Consolidated Total Assets, determined as of the end of the fiscal year immediately preceding such sale, lease or other disposition; *provided* that there shall be excluded from any determination of a "substantial part" any (i) sale or disposition of assets in the ordinary course of business of the Company and its Restricted Subsidiaries, and (ii) any transfer of assets from the Company to any Wholly-Owned Restricted Subsidiary or from any Restricted Subsidiary to the Company or a Wholly-Owned Restricted Subsidiary; and *provided, further*, that a condemnation of assets by a governmental authority (or a sale in lieu of such a condemnation) shall not constitute a sale, lease or other disposition of assets for purposes of this **Section 10.3**.

Section 10.4. Merger, Consolidation and Sale of Stock. (a) The Company will not, and will not permit any of its Restricted Subsidiaries to, consolidate with or merge with any other Person or convey, transfer or lease substantially all of its assets in a single transaction or series of transactions to any Person; *provided* that:

(1) a Restricted Subsidiary of the Company may (x) consolidate with or merge with, or convey, transfer or lease substantially all of its assets in a single transaction or series of transactions to, the Company or a Wholly-Owned Restricted Subsidiary so long as in any merger or consolidation involving the Company, the Company shall be the surviving or continuing corporation, or (y) convey, transfer or lease all of its assets in compliance with the provisions of **Section 10.3**; and

(2) the foregoing restriction does not apply to the consolidation or merger of the Company with, or the conveyance, transfer or lease of substantially all of the assets of the Company in a single transaction or series of transactions to, any Person so long as:

(a) the successor formed by such consolidation or the survivor of such merger or the Person that acquires by conveyance, transfer or lease substantially all of the assets of the Company as an entirety, as the case may be (the *"Successor Corporation"*), shall be a solvent corporation organized and existing under the laws of the United States of America, any State thereof or the District of Columbia;

(b) if the Company is not the Successor Corporation, such Successor Corporation shall have executed and delivered to each holder of Notes its assumption of the due and punctual performance and observance of each covenant

and condition of this Agreement and the Notes (pursuant to such agreements and instruments as shall be reasonably satisfactory to the Required Holders), and the Company shall have caused to be delivered to each holder of Notes an opinion of nationally recognized independent counsel, to the effect that all agreements or instruments effecting such assumption are enforceable in accordance with their terms and comply with the terms hereof; and

(c) immediately after giving effect to such transaction no Default or Event of Default would exist.

No such conveyance, transfer or lease of substantially all of the assets of the Company shall have the effect of releasing the Company or any Successor Corporation that shall theretofore have become such in the manner prescribed in this **Section 10.4** from its liability under this Agreement or the Notes.

(b) The Company will not permit any Restricted Subsidiary to issue or sell any shares of stock or other equity interests of any class (including as "stock" for the purposes of this **Section 10.4(b)**, any warrants, rights or options to purchase or otherwise acquire stock or other equity interests or other securities exchangeable for or convertible into stock or other equity interests) of such Restricted Subsidiary to any Person other than the Company or a Wholly-Owned Restricted Subsidiary, except for the purpose of qualifying directors, or except in satisfaction of the validly pre-existing preemptive or contractual rights of minority shareholders in connection with the simultaneous issuance of stock or other equity interests to the Company and/or a Restricted Subsidiary whereby the Company and/or such Restricted Subsidiary maintain their same proportionate interest in such Subsidiary.

(c) The Company will not sell, transfer or otherwise dispose of any shares of stock or other equity interests of any Restricted Subsidiary (except to qualify directors), and will not permit any Restricted Subsidiary to sell, transfer or otherwise dispose of (except to the Company or a Wholly-Owned Restricted Subsidiary) any shares of stock or other equity interests of any other Restricted Subsidiary, unless (i) the consideration for such sale, transfer or other disposition is either cash or shares of stock, (ii) such sale, transfer or other disposition is made to a Person (other than an Affiliate), of the Company's entire Investment in such Restricted Subsidiary and (iii) such sale, transfer or other disposition can be made within the limitations of **Section 10.3**.

Section 10.5. Limitation on Sale and Leasebacks. The Company will not, and will not permit any Restricted Subsidiary to, enter into any Sale-and-Leaseback Transaction; *provided* that the foregoing restriction shall not apply to any Sale-and-Leaseback Transaction if immediately after the consummation of such Sale-and-Leaseback Transaction and after giving effect thereto, Attributable Debt will not exceed 25% of Consolidated Net Worth.

Section 10.6. Limitation on Distributions and Investments. (a) The Company will not, and will not permit any Subsidiary to at any time make (or incur any liability to make) or pay any Distribution such that as of the declaration date of any such Distribution and after giving effect to the declaration or payment of any such Distribution a Default or Event of Default would

exist, except in the case of Distributions from a Subsidiary to the Company or any Subsidiary Guarantor.

(b) The Company will not, and will not permit any Restricted Subsidiary to, make or permit to be outstanding any Investment except:

(i) Investments in one or more Restricted Subsidiaries or any Person that becomes a Restricted Subsidiary;

(ii) current assets arising from the sale of goods and services in the ordinary course of business of the Company and its Restricted Subsidiaries;

(iii) property to be used in the ordinary course of business of the Company and its Restricted Subsidiaries;

(iv) Investments in obligations issued by or guaranteed by the United States of America or an agency thereof, *provided* that such obligations mature within 365 days from the date of acquisition thereof;

(v) Investments in certificates of deposit, time deposits or banker's acceptances issued by (or accepted by) an Acceptable Bank, *provided* that such obligations mature within 365 days from the date of acquisition thereof;

(vi) Investments in commercial paper rated in the highest ratings classifications by Moody's or S&P and maturing not more than 270 days from the date of creation thereof;

(vii) Investments in Repurchase Agreements;

(viii) Investments in tax-exempt obligations of any state of the United States of America, or any municipality of any such state, in each case rated "Aa2" or higher by Moody's or "AA" or higher by S&P or an equivalent credit rating by another credit rating agency of recognized national standing, *provided* that such obligations mature or can be tendered by the holder within 365 days from the date of acquisition thereof;

(ix) Investments in money market instrument programs which are classified as current assets in accordance with GAAP, which money market instrument programs are administered by an "investment company" regulated under the Investment Company Act of 1940 and which money market instrument programs hold only Investments satisfying the criteria set forth in clauses (iv), (v), (vi), (vii) and (viii) above;

(x) Investments in businesses (including Unrestricted Subsidiaries) which are in industries which are fundamentally related to the businesses engaged in by the Company and its Subsidiaries on the date of this Agreement; and

(xi) Investments in addition to the Investments permitted by the preceding clauses (i) through (x); *provided* that the aggregate principal amount of Investments outstanding pursuant to this clause (xi) shall not at any time exceed 25% of Consolidated Net Worth.

In valuing Investments for purposes of applying the limitations set forth in clause (xi) of this **Section 10.6**, such Investments shall be taken at the original cost thereof, without allowance for any subsequent write-offs or appreciation or depreciation therein, but less any amount repaid or recovered on account of capital or principal.

Section 10.7. Nature of Business. Neither the Company nor any Restricted Subsidiary will engage in any business, other than, when taken as a whole, the general nature of the business in which the Company and its Restricted Subsidiaries are engaged on the date of this Agreement and other energy related regulated business activities and non-regulated business activities that are complementary to the foregoing.

Section 10.8. Transactions with Affiliates. The Company will not and will not permit any Restricted Subsidiary to enter into directly or indirectly any Material transaction or group of related transactions (including without limitation the purchase, lease, sale or exchange of properties of any kind or the rendering of any service) with any Affiliate (other than the Company or another Restricted Subsidiary), except upon fair and reasonable terms no less favorable to the Company or such Restricted Subsidiary than would be obtainable in a comparable arm's-length transaction with a Person not an Affiliate. In addition, the Company will not, and will not permit any Restricted Subsidiary to, make any loan or advance to the Company or any Restricted Subsidiary except in the ordinary course of business and in accordance with the reasonable requirements of the business of the Company or any such Restricted Subsidiary.

Section 10.9. Acquisitions. The Company will not, and will not permit any Restricted Subsidiary to, make any acquisition of all or substantially all of the assets or capital stock of any business entity if at the time of such acquisition and after giving effect thereto, a Default or Event of Default shall exist.

Section 10.10. Unrestricted Subsidiaries. The Company will not at any time permit Unrestricted Subsidiaries to (i) own more than 40% of the Consolidated Total Assets of the Company and its Subsidiaries, or (ii) account for more than 40% of the consolidated gross revenues of the Company and its Subsidiaries, determined in each case in accordance with GAAP.

Section 10.11. Interest Coverage Covenant. Section 6.1(b) (the *"Interest Coverage Covenant"*) of the Bank Credit Agreement in effect on the date of this Agreement (as such covenant may be amended or modified from time to time whether pursuant to an amendment to the Bank Credit Agreement in effect on the date of this Agreement or any new, restated or replacement Bank Credit Agreement) is hereby incorporated by reference into this **Section 10.11**. The Interest Coverage Covenant shall continue in effect until such time as the Interest Coverage Covenant shall have been eliminated from the Bank Credit Agreement or all

indebtedness under the Bank Credit Agreement is repaid in full and all commitments related thereto are terminated; *provided,* that if at the time of any such repayment or the termination of any such commitment a Default or Event of Default shall exist under this Agreement, then the Interest Coverage Covenant shall continue in full force and effect so long as such Default or Event of Default continues to exist. If at any time a Default or Event of Default exists under the Interest Coverage Covenant, no modification or waiver of the Interest Coverage Covenant shall be effective unless the Required Holders shall have consented thereto. Promptly, but in no event more than 5 Business Days following the execution of any Bank Credit Agreement (or any amendment thereto) which changes or eliminates the Interest Coverage Covenant, the Company shall furnish each holder of the Notes with a copy of such agreement.

Section 10.12. Economic Sanctions, Etc. The Company will not, and will not permit any Controlled Entity to (a) become (including by virtue of being owned or controlled by a Blocked Person), own or control a Blocked Person or (b) directly or indirectly have any investment in or engage in any dealing or transaction (including any investment, dealing or transaction involving the proceeds of the Notes) with any Person if such investment, dealing or transaction (i) would cause any holder or any affiliate of such holder to be in violation of, or subject to sanctions under, any law or regulation applicable to such holder, or (ii) is prohibited by or subject to sanctions under any U.S. Economic Sanctions Laws.

Section 11. Events of Default.

An *"Event of Default"* shall exist if any of the following conditions or events shall occur and be continuing:

(a) the Company defaults in the payment of any principal or Make-Whole Amount, if any, on any Note when the same becomes due and payable, whether at maturity or at a date fixed for prepayment or by declaration or otherwise; or

(b) the Company defaults in the payment of any interest on any Note for more than five Business Days after the same becomes due and payable; or

(c) the Company defaults in the performance of or compliance with any term contained in **Section 8.5, 10.1, 10.2, 10.3, 10.4, 10.5** or **10.11**; or

(d) the Company defaults in the performance of or compliance with any Material term contained herein (other than those referred to in paragraphs (a), (b) and (c) of this **Section 11**) and such default is not remedied within 30 days after the earlier of (i) a Responsible Officer obtaining actual knowledge of such default and (ii) the Company receiving written notice of such default from any holder of a Note (any such written notice to be identified as a "notice of default" and to refer specifically to this paragraph (d) of **Section 11**); or

(e) any representation or warranty made in writing by or on behalf of the Company or by any officer of the Company in this Agreement or in any writing required

to be furnished in connection with the transactions contemplated hereby proves to have been false or incorrect in any material respect on the date as of which made; or

(f) (i) the Company, any Restricted Subsidiary or any Significant Subsidiary is in default (as principal or as guarantor or other surety) in the payment of any principal of or premium or make-whole amount or interest on any Debt (other than the Notes) or other security that is outstanding in an aggregate principal amount (or which has a par or stated value) in excess of $10,000,000 beyond any period of grace provided with respect thereto, or (ii) the Company, any Restricted Subsidiary or any Significant Subsidiary is in default in the performance of or compliance with any term of any instrument, mortgage, indenture or other agreement relating to any Debt (other than the Notes) or other security in an aggregate principal amount (or which has a par or stated value) in excess of $10,000,000 or any other condition exists, and as a consequence of such default or condition such Debt or security has become, or has been declared, due and payable before its stated maturity or before its regularly scheduled dates of payment, or (iii) as a consequence of the occurrence or continuation of any event or condition (other than the passage of time or the right of the holder of Debt or other security to convert such Debt or other security into equity interests), the Company, any Restricted Subsidiary or any Significant Subsidiary has become obligated to purchase or repay Debt (other than the Notes) or such other security before its regular maturity or before its regularly scheduled dates of payment in an aggregate outstanding principal amount (or which has a par or stated value) in excess of $10,000,000; or

(g) the Company, any Restricted Subsidiary or any Significant Subsidiary (i) is generally not paying, or admits in writing its inability to pay, its debts as they become due, (ii) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or to take advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, (v) is adjudicated as insolvent or to be liquidated, or (vi) takes corporate action for the purpose of any of the foregoing; or

(h) a court or Governmental Authority of competent jurisdiction enters any order appointing, without consent by the Company, any Restricted Subsidiary or any Significant Subsidiary, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or constituting an order for relief or approving a petition for relief or reorganization or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the Company, any Restricted Subsidiary or any Significant Subsidiary, or any such petition shall be filed against the Company, any Restricted Subsidiary or any Significant Subsidiary and such petition shall not be dismissed within 60 days; or

(i) a final judgment or judgments for the payment of money aggregating in excess of $10,000,000 are rendered against one or more of the Company, its Restricted Subsidiaries and its Significant Subsidiaries and which judgments are not, within 90 days after entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within 90 days after the expiration of such stay; or

(j) if (i) any Person shall engage in any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Code) involving any Plan, (ii) the adjusted target attainment percentage (within the meaning of Section 436(j)(2) of the Code) with respect to any Plan maintained by the Company or its ERISA Affiliates is certified by the Plan's actuary to be less than eighty percent (80%) or deemed by operation of Section 436 of the Code in the absence of such certification to be less than eighty percent (80%), (iii) a reportable event (as defined in Section 4043(c) of ERISA) shall occur with respect to, or proceedings shall commence to have a trustee appointed, or a trustee shall be appointed, to administer or to terminate, any Plan, which reportable event (as defined in Section 4043(c) of ERISA) or institution of proceedings is, in the reasonable opinion of the Required Holders, likely to result in the termination by action of the PBGC or any court of such Plan for purposes of Title IV of ERISA, (iv) any Plan, if any, shall terminate for purposes of Title IV of ERISA, or (v) the Company or its ERISA Affiliates should completely or partially withdraw from a Multiemployer Plan; and in each case in clauses (i) through (v) above, such event or condition, together with all other such events or conditions, if any, could reasonably be expected to have a Material Adverse Effect.

Section 12. Remedies on Default, Etc.

Section 12.1. Acceleration. (a) If an Event of Default with respect to the Company or a Significant Subsidiary described in paragraph (g) or (h) of **Section 11** (other than an Event of Default described in clause (i) of paragraph (g) or described in clause (vi) of paragraph (g) by virtue of the fact that such clause encompasses clause (i) of paragraph (g)) has occurred, all the Notes then outstanding shall automatically become immediately due and payable.

(b) If any other Event of Default has occurred and is continuing, the Required Holders may at any time at its or their option, by notice or notices to the Company, declare all the Notes then outstanding to be immediately due and payable.

(c) If any Event of Default described in paragraph (a) or (b) of **Section 11** has occurred and is continuing, any holder or holders of Notes at the time outstanding affected by such Event of Default may at any time, at its or their option, by notice or notices to the Company, declare all the Notes held by such holder or holders to be immediately due and payable.

Upon any Note becoming due and payable under this **Section 12.1**, whether automatically or by declaration, such Note will forthwith mature and the entire unpaid principal amount of such Note, *plus* (i) all accrued and unpaid interest thereon and (ii) the Make-Whole Amount determined in respect of such principal amount (to the full extent permitted by applicable law), shall all be immediately due and payable, in each and every case without presentment, demand, protest or further notice, all of which are hereby waived. The Company

acknowledges, and the parties hereto agree, that each holder of a Note has the right to maintain its investment in the Notes free from repayment by the Company (except as herein specifically provided for) and that the provision for payment of a Make-Whole Amount by the Company in the event that the Notes are prepaid or are accelerated as a result of an Event of Default, is intended to provide compensation for the deprivation of such right under such circumstances.

Section 12.2. Other Remedies. If any Default or Event of Default has occurred and is continuing, and irrespective of whether any Notes have become or have been declared immediately due and payable under **Section 12.1**, the holder of any Note at the time outstanding may proceed to protect and enforce the rights of such holder by an action at law, suit in equity or other appropriate proceeding, whether for the specific performance of any agreement contained herein or in any Note, or for an injunction against a violation of any of the terms hereof or thereof, or in aid of the exercise of any power granted hereby or thereby or by law or otherwise.

Section 12.3. Rescission. At any time after any Notes have been declared due and payable pursuant to clause (b) or (c) of **Section 12.1**, the Required Holders, by written notice to the Company, may rescind and annul any such declaration and its consequences if (a) the Company has paid all overdue interest on the Notes, all principal of and Make-Whole Amount, if any, on any Notes that are due and payable and are unpaid other than by reason of such declaration, and all interest on such overdue principal and Make-Whole Amount, if any, and (to the extent permitted by applicable law) any overdue interest in respect of the Notes, at the applicable Default Rate, (b) all Events of Default and Defaults, other than non-payment of amounts that have become due solely by reason of such declaration, have been cured or have been waived pursuant to **Section 17**, and (c) no judgment or decree has been entered for the payment of any monies due pursuant hereto or pursuant to the Notes. No rescission and annulment under this **Section 12.3** will extend to or affect any subsequent Event of Default or Default or impair any right consequent thereon.

Section 12.4. No Waivers or Election of Remedies, Expenses, Etc. No course of dealing and no delay on the part of any holder of any Note in exercising any right, power or remedy shall operate as a waiver thereof or otherwise prejudice such holder's rights, powers or remedies. No right, power or remedy conferred by this Agreement or by any Note upon any holder thereof shall be exclusive of any other right, power or remedy referred to herein or therein or now or hereafter available at law, in equity, by statute or otherwise. Without limiting the obligations of the Company under **Section 15**, the Company will pay to the holder of each Note on demand such further amount as shall be sufficient to cover all costs and expenses of such holder incurred in any enforcement or collection under this **Section 12**, including, without limitation, the reasonable attorneys' fees, expenses and disbursements for the holders as set forth in **Section 15**.

Section 13. Registration; Exchange; Substitution of Notes.

Section 13.1. Registration of Notes. The Company shall keep at its principal executive office a register for the registration and registration of transfers of Notes. The name and address of each holder of one or more Notes, each transfer thereof and the name and address of each transferee of one or more Notes shall be registered in such register. Prior to due presentment for registration of transfer, the Person in whose name any Note shall be registered shall be deemed

and treated as the owner and holder thereof for all purposes hereof, and the Company shall not be affected by any notice or knowledge to the contrary. The Company shall give to any holder of a Note that is an Institutional Investor promptly upon request therefor, a complete and correct copy of the names and addresses of all registered holders of Notes.

*Section 13.2. Transfer and Exchange of Note*s. Upon surrender of any Note at the principal executive office of the Company for registration of transfer or exchange (and in the case of a surrender for registration of transfer, duly endorsed or accompanied by a written instrument of transfer duly executed by the registered holder of such Note or its attorney duly authorized in writing and accompanied by the address for notices of each transferee of such Note or part thereof), the Company shall execute and deliver not more than five Business Days following surrender of such Note, at the Company's expense (except as provided below), one or more new Notes (as requested by the holder thereof) of the same Series in exchange therefor, in an aggregate principal amount equal to the unpaid principal amount of the surrendered Note. Each such new Note shall be payable to such Person as such holder may request and shall be substantially in the form of the Note of such Series originally issued hereunder. Each such new Note shall be dated and bear interest from the date to which interest shall have been paid on the surrendered Note or dated the date of the surrendered Note if no interest shall have been paid thereon. The Company may require payment of a sum sufficient to cover any stamp tax or governmental charge imposed in respect of any such transfer of Notes. Notes shall not be transferred in denominations of less than $100,000, *provided* that if necessary to enable the registration of transfer by a holder of its entire holding of Notes of a Series, one Note of such Series may be in a denomination of less than $100,000. Any transferee, by its acceptance of a Note registered in its name (or the name of its nominee), shall be deemed to have made the representation set forth in **Section 6.3**, *provided* that such holder may (in reliance upon information provided by the Company, which shall not be unreasonably withheld) make a representation to the effect that the purchase by such holder of any Note will not constitute a non-exempt prohibited transaction under Section 406(a) of ERISA.

The Notes have not been registered under the Securities Act or under the securities laws of any state and may not be transferred or resold unless registered under the Securities Act and all applicable state securities laws or unless an exemption from the requirement for such registration is available.

Section 13.3. Replacement of Notes. Upon receipt by the Company of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of any Note (which evidence shall be, in the case of an Institutional Investor, notice from such Institutional Investor of such ownership and such loss, theft, destruction or mutilation), and

(a) in the case of loss, theft or destruction, of indemnity reasonably satisfactory to it (*provided* that if the holder of such Note is, or is a nominee for, an original Purchaser or another holder of a Note with a minimum net worth of at least $50,000,000, such Person's own unsecured agreement of indemnity shall be deemed to be satisfactory), or

(b) in the case of mutilation, upon surrender and cancellation thereof,

the Company at its own expense shall execute and deliver not more than five Business Days following satisfaction of such conditions, in lieu thereof, a new Note of the same Series, dated and bearing interest from the date to which interest shall have been paid on such lost, stolen, destroyed or mutilated Note or dated the date of such lost, stolen, destroyed or mutilated Note if no interest shall have been paid thereon.

Section 14. Payments on Notes.

Section 14.1. Place of Payment. Subject to **Section 14.2**, payments of principal, Make-Whole Amount, if any, and interest becoming due and payable on the Notes shall be made in New York, New York at the principal office of JP Morgan Chase Bank, N.A., in such jurisdiction. The Company may at any time, by notice to each holder of a Note, change the place of payment of the Notes so long as such place of payment shall be either the principal office of the Company in such jurisdiction or the principal office of a bank or trust company in such jurisdiction.

Section 14.2. Payment by Wire Transfer. So long as any Purchaser or such Purchaser's nominee shall be the holder of any Note, and notwithstanding anything contained in **Section 14.1** or in such Note to the contrary, the Company will pay all sums becoming due on such Note for principal, Make-Whole Amount, if any, and interest by the method and at the address specified for such purpose for such Purchaser on **Schedule A** hereto, or by such other method or at such other address as such Purchaser shall have from time to time specified to the Company in writing for such purpose, without the presentation or surrender of such Note or the making of any notation thereon, except that upon written request of the Company made concurrently with or reasonably promptly after payment or prepayment in full of any Note, such Purchaser shall surrender such Note for cancellation, reasonably promptly after any such request, to the Company at its principal executive office or at the place of payment most recently designated by the Company pursuant to **Section 14.1**. Prior to any sale or other disposition of any Note held by any Purchaser or such Person's nominee, such Person will, at its election, either endorse thereon the amount of principal paid thereon and the last date to which interest has been paid thereon or surrender such Note to the Company in exchange for a new Note or Notes of the same Series pursuant to **Section 13.2**. The Company will afford the benefits of this **Section 14.2** to any Institutional Investor that is the direct or indirect transferee of any Note.

Section 15. Expenses, Etc.

Section 15.1. Transaction Expenses. Whether or not the transactions contemplated hereby are consummated, the Company will pay all reasonable costs and expenses (including reasonable attorneys' fees of one special counsel for the Purchasers and, if reasonably required, local or other counsel) incurred by the Purchasers and the holders of Notes in connection with such transactions and in connection with any amendments, waivers or consents under or in respect of this Agreement or the Notes (whether or not such amendment, waiver or consent becomes effective), including, without limitation: (a) the reasonable costs and expenses incurred in enforcing or defending (or determining whether or how to enforce or defend) any rights under this Agreement or the Notes or in responding to any subpoena or other legal process or informal investigative demand by any Governmental Authority issued in connection with this Agreement

or the Notes, or by reason of being a holder of any Note, (b) the reasonable costs and expenses, including financial advisors' fees, incurred in connection with the insolvency or bankruptcy of the Company or any Subsidiary or in connection with any work-out or restructuring of the transactions contemplated hereby and by the Notes and (c) the costs and expenses incurred in connection with the initial filing of this Agreement and all related documents and financial information with the SVO *provided,* that such costs and expenses under this clause (c) shall not exceed $3,000 for each Series. The Company will pay, and will save each Purchaser and each other holder of a Note harmless from, all claims in respect of any reasonable fees, costs or expenses if any, of brokers and finders (other than those retained by the Purchasers).

Section 15.2. Survival. The obligations of the Company under this **Section 15** will survive the payment or transfer of any Note, the enforcement, amendment or waiver of any provision of this Agreement or the Notes, and the termination of this Agreement.

Section 16. Survival of Representations and Warranties; Entire Agreement.

All representations and warranties contained herein shall survive the execution and delivery of this Agreement and the Notes, the purchase or transfer by any Purchaser of any Note or portion thereof or interest therein and the payment of any Note may be relied upon by any subsequent holder of any such Note, regardless of any investigation made at any time by or on behalf of any Purchaser or any other holder of any such Note. All statements contained in any certificate or other instrument delivered by or on behalf of the Company pursuant to this Agreement shall be deemed representations and warranties of the Company under this Agreement. Subject to the preceding sentence, this Agreement and the Notes embody the entire agreement and understanding between the Purchasers and the Company and supersede all prior agreements and understandings relating to the subject matter hereof.

Section 17. Amendment and Waiver.

Section 17.1. Requirements. This Agreement and the Notes may be amended, and the observance of any term hereof or of the Notes may be waived (either retroactively or prospectively), with (and only with) the written consent of the Company and the Required Holders, except that (a) no amendment or waiver of any of the provisions of **Section 1, 2, 3, 4, 5, 6** or **21** hereof, or any defined term (as it is used therein) will be effective as to any holder of Notes unless consented to by such holder of Notes in writing, and (b) no such amendment or waiver may, without the written consent of the holder of each Note at the time outstanding affected thereby, (i) subject to the provisions of **Section 12** relating to acceleration or rescission, change the amount or time of any prepayment or payment of principal of, or reduce the rate or change the time of payment or method of computation of interest or of the Make-Whole Amount on, the Notes, (ii) change the percentage of the principal amount of the Notes the holders of which are required to consent to any such amendment or waiver, or (iii) amend any of **Section 8** (other than as contemplated by the second sentence of **Section 8.2**), **11(a), 11(b), 12, 17** or **20**.

Section 17.2. Solicitation of Holders of Notes.

(a) *Solicitation.* The Company will provide each holder of the Notes (irrespective of the amount of Notes then owned by it) with notice of any proposed amendment, waiver or consent in respect of any of the provisions hereof or of the Notes sufficiently far in advance of the date a decision is required, to enable such holder to make an informed and considered decision with respect to such proposed amendment, waiver or consent. Such notice shall include a description of the proposed amendment, waiver or consent. A holder of the Notes may request, in writing, additional information from the Company in order to enable such holder to make its decision and the Company agrees to use its best efforts to provide such information. The Company will deliver executed or true and correct copies of each amendment, waiver or consent effected pursuant to the provisions of this **Section 17** to each holder of outstanding Notes promptly following the date on which it is executed and delivered by, or receives the consent or approval of, the requisite holders of Notes.

(b) *Payment.* The Company will not directly or indirectly pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, or grant any security, to any holder of Notes as consideration for or as an inducement to the entering into by such holder of Notes of any waiver or amendment of any of the terms and provisions hereof or of the Notes unless such remuneration is concurrently paid, or security is concurrently granted, on the same terms, ratably to each holder of Notes then outstanding even if such holder did not consent to such waiver or amendment.

(c) *Consent in Contemplation of Transfer*. Any consent made pursuant to this **Section 17** by a holder of Notes that has transferred or has agreed to transfer its Notes to (i) the Company, (ii) any Subsidiary or any other Affiliate or (iii) any other Person in connection with, or in anticipation of, such other Person acquiring, making a tender offer for or merging with the Company and/or any of its Affiliates, and has provided or has agreed to provide such written consent as a condition to such transfer shall be void and of no force or effect except solely as to such holder, and any amendments effected or waivers granted or to be effected or granted that would not have been or would not be so effected or granted but for such consent (and the consents of all other holders of Notes that were acquired under the same or similar conditions) shall be void and of no force or effect except solely as to such holder.

Section 17.3. Binding Effect, Etc. Any amendment or waiver consented to as provided in this **Section 17** applies equally to all holders of Notes and is binding upon them and upon each future holder of any Note and upon the Company without regard to whether such Note has been marked to indicate such amendment or waiver. No such amendment or waiver will extend to or affect any obligation, covenant, agreement, Default or Event of Default not expressly amended or waived or impair any right consequent thereon. No course of dealing between the Company and the holder of any Note nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any holder of such Note.

Section 17.4. Notes Held by Company, Etc. Solely for the purpose of determining whether the holders of the requisite percentage of the aggregate principal amount of Notes then outstanding approved or consented to any amendment, waiver or consent to be given under this

Agreement or the Notes, or have directed the taking of any action provided herein or in the Notes to be taken upon the direction of the holders of a specified percentage of the aggregate principal amount of Notes then outstanding, Notes directly or indirectly owned by the Company or any of its Affiliates shall be deemed not to be outstanding.

Section 18. Notices.

All notices and communications provided for hereunder shall be in writing and sent (a) by telefacsimile if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (b) by a recognized overnight delivery service (with charges prepaid). Any such notice must be sent:

(i) if to a Purchaser or such Purchaser's nominee, to such Purchaser or such Purchaser's nominee at the address specified for such communications in **Schedule A** to this Agreement, or at such other address as such Purchaser or such Purchaser's nominee shall have specified to the Company in writing pursuant to this **Section 18**;

(ii) if to any other holder of any Note, to such holder at such address as such other holder shall have specified to the Company in writing pursuant to this **Section 18**, or

(iii) if to the Company, to the Company at its address set forth at the beginning hereof to the attention of Chief Financial Officer, with a copy to the General Counsel, or at such other address as the Company shall have specified to the holder of each Note in writing.

Notices under this **Section 18** will be deemed given only when actually received.

Section 19. Reproduction of Documents.

This Agreement and all documents relating thereto, including, without limitation, (a) consents, waivers and modifications that may hereafter be executed, (b) documents received by each Purchaser at the Closing (except the Notes themselves), and (c) financial statements, certificates and other information previously or hereafter furnished to each Purchaser, may be reproduced by such Purchaser by any photographic, photostatic, electronic, digital, microfilm, microcard, miniature photographic or other similar process and such Purchaser may destroy any original document so reproduced. The Company agrees and stipulates that, to the extent permitted by applicable law, any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by such Purchaser in the regular course of business) and any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence. This **Section 19** shall not prohibit the Company or any other holder of Notes from contesting any such reproduction to the same extent that it could contest the original, or from introducing evidence to demonstrate the inaccuracy of any such reproduction.

Section 20. Confidential Information.

For the purposes of this **Section 20**, *"Confidential Information"* means information delivered to any Purchaser by or on behalf of the Company or any Subsidiary in connection with the transactions contemplated by or otherwise pursuant to this Agreement that is proprietary in nature and that was clearly marked or labeled or otherwise adequately identified when received by such Purchaser as being confidential information of the Company or such Subsidiary, *provided* that such term does not include information that (a) was publicly known or otherwise known to such Purchaser prior to the time of such disclosure, (b) subsequently becomes publicly known through no act or omission by such Purchaser or any Person acting on such Purchaser's behalf, (c) otherwise becomes known to such Purchaser other than through disclosure by the Company or any Subsidiary or (d) constitutes financial statements delivered to such Purchaser under **Section 7.1** that are otherwise publicly available. Each Purchaser will maintain the confidentiality of such Confidential Information in accordance with procedures adopted by such Purchaser in good faith to protect confidential information of third parties delivered to such Purchaser, *provided* that such Purchaser may deliver or disclose Confidential Information to (i) such Purchaser's directors, trustees, officers, employees, agents, attorneys and affiliates (to the extent such disclosure reasonably relates to the administration of the investment represented by such Purchaser's Notes), (ii) such Purchaser's financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this **Section 20**, (iii) any other holder of any Note, (iv) any Institutional Investor to which such Purchaser sells or offers to sell such Note or any part thereof or any participation therein (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this **Section 20**), (v) any Person from which such Purchaser offers to purchase any security of the Company (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this **Section 20**), (vi) any federal or state regulatory authority having jurisdiction over such Purchaser, (vii) the NAIC or the SVO or any similar organization, or any nationally recognized rating agency that requires access to information about such Purchaser's investment portfolio, or (viii) any other Person to which such delivery or disclosure may be necessary or appropriate (w) to effect compliance with any law, rule, regulation or order applicable to such Purchaser, (x) in response to any subpoena or other legal process, (y) in connection with any litigation to which such Purchaser is a party or (z) if an Event of Default has occurred and is continuing, to the extent such Purchaser may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under such Purchaser's Notes and this Agreement. Each holder of a Note, by its acceptance of a Note, will be deemed to have agreed to be bound by and to be entitled to the benefits of this **Section 20** as though it were a party to this Agreement. On reasonable request by the Company in connection with the delivery to any holder of a Note of information required to be delivered to such holder under this Agreement or requested by such holder (other than a holder that is a party to this Agreement or its nominee), such holder will enter into an agreement with the Company embodying the provisions of this **Section 20**.

In the event that as a condition to receiving access to information relating to the Company or its Subsidiaries in connection with the transactions contemplated by or otherwise pursuant to this Agreement, any Purchaser or holder of a Note is required to agree to a

confidentiality undertaking (whether through IntraLinks, another secure website, a secure virtual workspace or otherwise) which is different from this **Section 20**, this **Section 20** shall not be amended thereby and, as between such Purchaser or such holder and the Company, this **Section 20** shall supersede any such other confidentiality undertaking.

Section 21. Substitution of Purchaser.

Each Purchaser shall have the right to substitute any one of such Purchaser's Affiliates as the purchaser of the Notes that such Purchaser has agreed to purchase hereunder, by written notice to the Company, which notice shall be signed by both such Purchaser and such Purchaser's Affiliate, shall contain such Affiliate's agreement to be bound by this Agreement and shall contain a confirmation by such Affiliate of the accuracy with respect to it of the representations set forth in **Section 6**. Upon receipt of such notice, wherever the word "Purchaser" is used in this Agreement (other than in this **Section 21**), such word shall be deemed to refer to such Affiliate in lieu of such Purchaser. In the event that such Affiliate is so substituted as a purchaser hereunder and such Affiliate thereafter transfers to such Purchaser all of the Notes then held by such Affiliate, upon receipt by the Company of notice of such transfer, wherever the word "Purchaser" is used in this Agreement (other than in this **Section 21**), such word shall no longer be deemed to refer to such Affiliate, but shall refer to such Purchaser, and such Purchaser shall have all the rights of an original holder of the Notes under this Agreement.

Section 22. Miscellaneous.

Section 22.1. Successors and Assigns. All covenants and other agreements contained in this Agreement by or on behalf of any of the parties hereto bind and inure to the benefit of their respective successors and assigns (including, without limitation, any subsequent holder of a Note) whether so expressed or not except that, other than as expressly permitted by **Section 10.4**, the Company may not assign or otherwise transfer any of its rights or obligations hereunder or under the Notes without the prior written consent of each holder. Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto and their respective successors and assigns permitted hereby) any legal or equitable right, remedy or claim under or by reason of this Agreement.

Section 22.2. Payments Due on Non-Business Days. Anything in this Agreement or the Notes to the contrary notwithstanding, any payment of principal of or Make-Whole Amount or interest on any Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day.

Section 22.3. Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

Section 22.4. Construction. Each covenant contained herein shall be construed (absent express provision to the contrary) as being independent of each other covenant contained herein, so that compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with any other covenant. Where any provision herein refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person.

Section 22.5. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the parties hereto.

Section 22.6. Governing Law. This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

Section 22.7. Waiver of Jury Trial. THE PARTIES HERETO HEREBY WAIVE TRIAL BY JURY IN ANY ACTION BROUGHT ON OR WITH RESPECT TO THIS AGREEMENT, THE NOTES OR ANY OTHER DOCUMENT EXECUTED IN CONNECTION HEREWITH OR THEREWITH.

Section 22.8. Accounting Terms. For purposes of determining compliance with the financial covenants contained in this Agreement, any election by the Company to measure Debt using fair value accounting (as permitted by Accounting Standard Codification Topic No. 825-10-25 – *Fair Value Option* or any similar accounting standard) shall be disregarded and such determination shall be made as if such election had not been made and such Debt shall be valued at not less than 100% of the principal amount thereof.

* * * * *

The execution hereof by the Purchasers shall constitute a contract among the Company and the Purchasers for the uses and purposes hereinabove set forth. This Agreement may be executed in any number of counterparts, each executed counterpart constituting an original but all together only one agreement.

Very truly yours,

Aqua America, Inc.

By: \s\ Stan F. Szczygiel
Name: Stan F. Szczygiel
Title: Vice President and Treasurer

Accepted as of the first date written above.

[Variation]

The Northwestern Mutual Life Insurance Company

By: \s\ Timothy S. Collins
Name: Timothy S. Collins
Title: Managing Director

VOYA Investment Management LLC

By: \s\ Paul Aronson
Name: Paul Aronson
Title: Senior Vice President

Teachers Insurance and Annuity Association of America

By: \s\ Matthew W. Smith
Name: Matthew W. Smith
Title: Director

AXA Equitable Life Insurance Company

By: \s\ Amy Judd
Name: Amy Judd
Title: Investment Officer

MEMBERS Capital Advisors, Inc.

By: \s\ Anne Finucane
Name: Anne Finucane
Title: Managing Director, Investments

Information Relating to Purchasers

Intentionally Left Blank

Schedule A
(to Note Purchase Agreement)

Defined Terms

As used herein, the following terms have the respective meanings set forth below or set forth in the Section hereof following such term:

"Acceptable Bank" means Bank of America or any other bank or trust company (i) which is organized under the laws of the United States of America or any State thereof, (ii) which has capital, surplus and undivided profits aggregating at least $250,000,000, and (iii) whose long-term unsecured debt obligations (or the long-term unsecured debt obligations of the bank holding company owning all of the capital stock of such bank or trust company) shall be rated "A3" or higher by Moody's or "A-" or higher by S&P.

"Acceptable Broker-Dealer" means any Person other than a natural person (i) which is registered as a broker or dealer pursuant to the Exchange Act and (ii) whose long-term unsecured debt obligations shall have been given a rating of "A" or better by S&P or "A2" or better by Moody's.

"Affiliate" means, at any time, (a) with respect to any Person, any other Person that at such time directly or indirectly through one or more intermediaries Controls, or is Controlled by, or is under common Control with, such first Person, and (b) with respect to the Company, any Person beneficially owning or holding, directly or indirectly, 10% or more of any class of voting or equity interests of the Company or any Subsidiary or any Person of which the Company and its Subsidiaries beneficially own or hold, in the aggregate, directly or indirectly, 10% or more of any class of voting or equity interests. As used in this definition, *"Control"* means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. Unless the context otherwise clearly requires, any reference to an *"Affiliate"* is a reference to an Affiliate of the Company.

"Agreement" means this Note Purchase Agreement, including all Schedules and Exhibits attached to this Agreement.

"Anti-Corruption Laws" means any law or regulation in a U.S. or any non-U.S. jurisdiction regarding bribery or any other corrupt activity, including the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act 2010.

"Anti-Money Laundering Laws" means any law or regulation in a U.S. or any non-U.S. jurisdiction regarding money laundering, drug trafficking, terrorist-related activities or other money laundering predicate crimes, including the Currency and Foreign Transactions Reporting Act of 1970 (otherwise known as the Bank Secrecy Act) and the USA PATRIOT Act.

"Attributable Debt" means in connection with any Sale-and-Leaseback Transaction entered into within the limitations of **Section 10.5**, as of the date of any determination thereof, the aggregate amount of rentals due and to become due (discounted from the respective due dates

thereof at the interest rate implicit in such rentals and otherwise in accordance with GAAP) under the lease relating to such Sale-and-Leaseback Transaction.

"Bank Credit Agreement" means the bank credit agreement dated as of March 23, 2012, between the Company and PNC Bank National Association, as agent, and the banks party thereto, as from time to time amended or restated or any replacement facility which constitutes the primary bank credit facility of the Company.

"Blocked Person" means (a) a Person whose name appears on the list of Specially Designated Nationals and Blocked Persons published by OFAC, (b) a Person, entity, organization, country or regime that is blocked or a target of sanctions that have been imposed under U.S. Economic Sanctions Laws or (c) a Person that is an agent, department or instrumentality of, or is otherwise beneficially owned by, controlled by or acting on behalf of, directly or indirectly, any Person, entity, organization, country or regime described in clause (a) or (b).

"Business Day" means (a) for the purposes of **Section 8.6** only, any day other than a Saturday, a Sunday or a day on which commercial banks in New York City are required or authorized to be closed, and (b) for the purposes of any other provision of this Agreement, any day other than a Saturday, a Sunday or a day on which commercial banks in Philadelphia, Pennsylvania or New York, New York are required or authorized to be closed.

"Capital Lease" means, at any time, a lease with respect to which the lessee is required concurrently to recognize the acquisition of an asset and the incurrence of a liability in accordance with GAAP.

"Capital Lease Obligation" means, with respect to any Person and a Capital Lease, the amount of the obligation of such Person as the lessee under such Capital Lease which would, in accordance with GAAP, appear as a liability on a balance sheet of such Person.

"Change in Control" is defined in **Section 8.7**.

"Closing" is defined in **Section 3**.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations promulgated thereunder from time to time.

"Company" means Aqua America, Inc., a Pennsylvania corporation.

"Confidential Information" is defined in **Section 20**.

"Consolidated Debt" means, as of any date of determination, the total of all Debt of the Company and its Subsidiaries outstanding on such date, after eliminating all offsetting debits and credits between the Company and its Subsidiaries and all other items required to be eliminated in the course of the preparation of consolidated financial statements of the Company and its Subsidiaries in accordance with GAAP.

"Consolidated Funded Debt" means, as of any date of determination, the total of all Funded Debt of the Company and its Subsidiaries outstanding on such date, after eliminating all offsetting debits and credits between the Company and its Subsidiaries and all other items required to be eliminated in the course of the preparation of consolidated financial statements of the Company and its Subsidiaries in accordance with GAAP.

"Consolidated Net Worth" means, as of any date of determination, the sum of (i) the par value (or value stated on the books of the corporation) of the capital stock (but excluding treasury stock and capital stock subscribed and unissued) of the Company and its Subsidiaries plus (ii) the amount of the paid-in capital and retained earnings of the Company and its Subsidiaries, in each case as such amounts would be shown on a consolidated balance sheet of the Company and its Subsidiaries as of such time prepared in accordance with GAAP.

"Consolidated Total Assets" means, as of any date of determination, the total amount of all assets of the Company and its Subsidiaries, as such amounts would be shown on a consolidated balance sheet of the Company and its Subsidiaries as of such time prepared in accordance with GAAP.

"Consolidated Total Capitalization" means, as of any date of determination, the sum of (i) Consolidated Funded Debt and (ii) Consolidated Net Worth.

"Controlled Entity" means (i) any of the Subsidiaries of the Company and any of their or the Company's respective Controlled Affiliates and (ii) if the Company has a parent company, such parent company and its Controlled Affiliates. As used in this definition, *"Control"* means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"Debt" means, with respect to any Person, without duplication,

(a) its liabilities for borrowed money;

(b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable and other accrued liabilities arising in the ordinary course of business but including, without limitation, all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property);

(c) its Capital Lease Obligations;

(d) all liabilities for borrowed money secured by any Lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities);

(e) all non-contingent liabilities in respect of reimbursement agreements or similar agreements in respect of letters of credit or instruments serving a similar function issued or accepted for its account by banks and other financial institutions;

(f) Swaps of such Person; and

(g) Guaranties of such Person with respect to liabilities of a type described in any of clauses (a) through (f) hereof.

Debt of any Person shall include all obligations of such Person of the character described in clauses (a) through (g) to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is deemed to be extinguished under GAAP.

"Default" means an event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

"Default Rate" means, for any Series of Notes, that rate of interest per annum that is the greater of (i) 2% above the rate of interest stated in clause (a) of the first paragraph of the Notes of such Series, or (ii) 2% over the rate of interest publicly announced by JP Morgan Chase Bank, N.A. in New York, New York as its "base" or "prime" rate.

"Distribution" means, in respect of any Person, (a) dividends, distributions or other payments on account of any capital stock of such Person (except distributions in capital stock of such Person); (b) the redemption or acquisition of such capital stock or of warrants, rights or other options to purchase such capital stock (except when solely in exchange for capital stock of such Person); and (c) any payment on account of, or the setting apart of any assets for a sinking or other analogous fund for, the purchase, redemption, defeasance, retirement or other acquisition of any share of any class of capital stock of such Person or any warrants or options to purchase any such capital stock.

"Environmental Laws" means any and all federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including but not limited to those related to hazardous substances or wastes, air emissions and discharges to waste or public systems.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that is treated as a single employer together with the Company under Section 414 of the Code.

"Event of Default" is defined in **Section 11**.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Fair Market Value" means, at any time and with respect to any property, the sale value of such property that would be realized in an arm's-length sale at such time between an informed

and willing buyer and an informed and willing seller (neither being under a compulsion to buy or sell), as reasonably determined in the good faith opinion of the Company's board of directors.

"Funded Debt" means, with respect to any Person, (i) all Debt of such Person which by its terms or by the terms of any instrument or agreement relating thereto matures, or which is otherwise payable or unpaid, one year or more from, or is directly or indirectly renewable or extendible at the option of the obligor in respect thereof to a date one year or more (including, without limitation, an option of such obligor under a revolving credit or similar agreement obligating the lender or lenders to extend credit over a period of one year or more) from, the date of the creation thereof, (ii) all payments in respect of the Debt described in the preceding clause (i) that are required to be made within one year from the date of determination of Funded Debt, whether or not such payments shall constitute a current liability of the obligor under GAAP, and (iii) all Guaranties of the Debt described in clauses (i) and (ii).

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States of America.

"Governmental Authority" means

(a) the government of

(i) the United States of America or any state or other political subdivision thereof, or

(ii) any jurisdiction in which the Company or any Subsidiary conducts all or any part of its business, or which has jurisdiction over any properties of the Company or any Subsidiary, or

(b) any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government.

"Governmental Official" means any governmental official or employee, employee of any government-owned or government-controlled entity, political party, any official of a political party, candidate for political office, official of any public international organization or anyone else acting in an official capacity.

"Guaranty" means, with respect to any Person, any obligation (except the endorsement in the ordinary course of business of negotiable instruments for deposit or collection) of such Person guaranteeing or in effect guaranteeing any Debt, dividend or other obligation of any other Person in any manner, whether directly or indirectly, including (without limitation) obligations incurred through an agreement, contingent or otherwise, by such Person:

(a) to purchase such Debt or obligation or any property constituting security herefore primarily for the purpose of assuring the owner of such Debt or obligation of the ability of any other Person to make payment of the Debt or obligation;

(b) to advance or supply funds (i) for the purchase or payment of such Debt or obligation, or (ii) to maintain any working capital or other balance sheet condition or any income statement condition of any other Person or otherwise to advance or make available funds for the purchase or payment of such Debt or obligation;

(c) to lease properties or to purchase properties or services primarily for the purpose of assuring the owner of such Debt or obligation of the ability of any other Person to make payment of the Debt or obligation; or

(d) otherwise to assure the owner of such Debt or obligation against loss in respect thereof.

In any computation of the Debt or other liabilities of the obligor under any Guaranty, the Debt or other obligations that are the subject of such Guaranty shall be assumed to be direct obligations of such obligor, *provided* that the amount of such Debt outstanding for purposes of this Agreement shall not be exceed the maximum amount of Debt that is the subject of such Guaranty.

"Hazardous Material" means any and all pollutants, toxic or hazardous wastes or any other substances that might pose a hazard to health or safety, the removal of which may be required or the generation, manufacture, refining, production, processing, treatment, storage, handling, transportation, transfer, use, disposal, release, discharge, spillage, seepage, or filtration of which is or shall be restricted, prohibited or penalized by any applicable law (including, without limitation, asbestos, urea formaldehyde foam insulation and polychlorinated biphenyls).

"holder" means, with respect to any Note, the Person in whose name such Note is registered in the register maintained by the Company pursuant to **Section 13.1**.

"Institutional Investor" means (a) any original purchaser of a Note, (b) any holder of more than $5,000,000 of the aggregate principal amount of the Notes then outstanding, and (c) any bank, trust company, savings and loan association or other financial institution, any pension plan, any investment company, any insurance company, any broker or dealer, or any other similar financial institution or entity, regardless of legal form.

"Investments" shall mean all investments, in cash or by delivery of property made, directly or indirectly in any Person, whether by acquisition of shares of capital stock, Debt or other obligations or securities or by loan, advance, capital contribution or otherwise.

"Lien" means, with respect to any Person, any mortgage, lien, pledge, charge, security interest or other encumbrance, or any interest or title of any vendor, lessor, lender or other secured party to or of such Person under any conditional sale or other title retention agreement (other than an operating lease) or Capital Lease, upon or with respect to any property or asset of such Person (including, in the case of stock, shareholder agreements, voting trust agreements and all similar arrangements).

"*Make-Whole Amount*" shall have the meaning set forth in **Section 8.6**.

"Material" means material in relation to the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries taken as a whole.

"Material Adverse Effect" means a material adverse effect on (a) the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries taken as a whole, or (b) the ability of the Company to perform its obligations under this Agreement and the Notes, or (c) the validity or enforceability of this Agreement or the Notes.

"Material Credit Facility" means, as to the Company and its Subsidiaries,

(a) the Bank Credit Agreement; and

(b) any note purchase agreement or similar document pursuant to which the Company has issued senior notes in a private securities offering.

"Moody's" means Moody's Investors Service, Inc.

"Multiemployer Plan" means any Plan that is a "multiemployer plan" (as such term is defined in Section 4001(a)(3) of ERISA).

"NAIC" means the National Association of Insurance Commissioners or any successor thereto.

"Net Proceeds" means with respect to any sale of property by any Person an amount equal to (a) the aggregate amount of the consideration received by such Person in respect of such sale (valued at the Fair Market Value of such consideration at the time of such sale), *minus* (b) the sum of (i) all out-of-pocket costs and expenses actually incurred by such Person in connection with such sale, and (ii) all state, federal and foreign taxes incurred, or to be incurred, by such Person in connection with such sale.

"Non-U.S. Plan" means any plan, fund or other similar program that (a) is established or maintained outside the United States of America by the Company or any Subsidiary primarily for the benefit of employees of the Company or one or more Subsidiaries residing outside the United States of America, which plan, fund or other similar program provides, or results in, retirement income, a deferral of income in contemplation of retirement or payments to be made upon termination of employment, and (b) is not subject to ERISA or the Code.

"Notes" is defined in **Section 1**.

"OFAC" means the Office of Foreign Assets Control of the United States Department of the Treasury.

"OFAC Sanctions Program " means any economic or trade sanction that OFAC is responsible for administering and enforcing. A list of OFAC Sanctions Programs may be found at http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx.

"Officer's Certificate" means a certificate of a Senior Financial Officer or of any other officer of the Company whose responsibilities extend to the subject matter of such certificate.

"PBGC" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA or any successor thereto.

"Person" means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization, or a government or agency or political subdivision thereof.

"Plan" means an "employee benefit plan" (as defined in Section 3(3) of ERISA) that is or, within the preceding five years, has been established or maintained, or to which contributions are or, within the preceding five years, have been made or required to be made, by the Company or any ERISA Affiliate or with respect to which the Company or any ERISA Affiliate may have any liability.

"property" or *"properties"* means, unless otherwise specifically limited, real or personal property of any kind, tangible or intangible, choate or inchoate.

"Purchasers" means the purchasers of the Notes named in **Schedule A** hereto.

"Repurchase Agreement" means any written agreement:

(a) that provides for (1) the transfer of one or more United States Governmental Securities in an aggregate principal amount at least equal to the amount of the Transfer Price (defined below) to the Company or any of its Subsidiaries from an Acceptable Bank or an Acceptable Broker-Dealer against a transfer of funds (the *"Transfer Price"*) by the Company to such Acceptable Bank or Acceptable Broker-Dealer, and (2) a simultaneous agreement by the Company, in connection with such transfer of funds, to transfer to such Acceptable Bank or Acceptable Broker-Dealer the same or substantially similar United States Governmental Securities for a price not less than the Transfer Price plus a reasonable return thereon at a date certain not later than 365 days after such transfer of funds,

(b) in respect of which the Company shall have the right, whether by contract or pursuant to applicable law, to liquidate such agreement upon the occurrence of any default thereunder, and

(c) in connection with which the Company, or an agent thereof, shall have taken all action required by applicable law or regulations to perfect a Lien in such United States Governmental Securities.

"Required Holders" means, at any time, the holders of more than 60% in principal amount of the Notes at the time outstanding (exclusive of Notes then owned by the Company or any of its Affiliates).

"Responsible Officer" means any Senior Financial Officer and any other officer of the Company with responsibility for the administration of the relevant portion of this Agreement.

"Restricted Subsidiary" means each Subsidiary listed as a Subsidiary on **Schedule 5.4** which is not designated as an Unrestricted Subsidiary and any other Subsidiary,

(1) a majority of each class of voting securities of which is legally and beneficially owned by the Company and its Restricted Subsidiaries; and

(2) which has been designated as a Restricted Subsidiary pursuant to **Section 9.6**.

"Sale-and-Leaseback Transaction" means a transaction or series of transactions pursuant to which the Company or any Restricted Subsidiary shall sell or transfer to any Person (other than the Company or a Wholly-Owned Restricted Subsidiary) any property, whether now owned or hereafter acquired, and, as part of the same transaction or series of transactions, the Company or any Restricted Subsidiary shall rent or lease as lessee (other than pursuant to a Capital Lease), or similarly acquire the right to possession or use of, such property or one or more properties which it intends to use for the same purpose or purposes as such property.

"S&P" means Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc.

"Securities Act" means the Securities Act of 1933, as amended from time to time, together with the rules and regulations promulgated thereunder.

"Senior Debt" means, as of the date of any determination thereof, all Consolidated Debt, other than Subordinated Debt.

"Senior Financial Officer" means the chief financial officer, principal accounting officer, treasurer or comptroller of the Company.

"Series" means any Series of Notes issued pursuant to this Agreement.

"Series A Notes" is defined in **Section 1**.

"Series B Notes" is defined in **Section 1**.

"Series C Notes" is defined in **Section 1**.

"Series D Notes" is defined in **Section 1**.

"Series E Notes" is defined in **Section 1**.

"Significant Subsidiary" means, at any time, any Subsidiary that accounts for more than (i) 10% of the Consolidated Total Assets of the Company and its Subsidiaries or (ii) 10% of

consolidated revenue of the Company and its Subsidiaries, determined in each case in accordance with GAAP.

"State Sanctions List" means a list that is adopted by any state Governmental Authority within the United States of America pertaining to Persons that engage in investment or other commercial activities in Iran or any other country that is a target of economic sanctions imposed under U.S. Economic Sanctions Laws.

"Subordinated Debt" means all unsecured Debt of the Company which shall contain or have applicable thereto subordination provisions providing for the subordination thereof to other Debt of the Company (including, without limitation, the obligations of the Company under this Agreement).

"Subsidiary" means, as to any Person, any corporation, association or other business entity in which such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries owns sufficient equity or voting interests to enable it or them (as a group) ordinarily, in the absence of contingencies, to elect a majority of the directors (or Persons performing similar functions) of such entity, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries (unless such partnership or joint venture can and does ordinarily take major business actions without the prior approval of such Person or one or more of its Subsidiaries). Unless the context otherwise clearly requires, any reference to a "Subsidiary" is a reference to a Subsidiary of the Company.

"Subsidiary Guarantor" is defined in **Section 9.7**.

"SVO" means the Securities Valuation Office of the NAIC or any successor to such office.

"Swaps" means, with respect to any Person, payment obligations with respect to interest rate swaps, currency swaps and similar obligations obligating such Person to make payments, whether periodically or upon the happening of a contingency. For the purposes of this Agreement, the amount of the obligation under any Swap shall be the amount determined in respect thereof as of the end of the then most recently ended fiscal quarter of such Person, based on the assumption that such Swap had terminated at the end of such fiscal quarter, and in making such determination, if any agreement relating to such Swap provides for the netting of amounts payable by and to such Person thereunder or if any such agreement provides for the simultaneous payment of amounts by and to such Person, then in each such case, the amount of such obligation shall be the net amount so determined.

"United States Governmental Security" means any direct obligation of, or obligation guaranteed by, the United States of America, or any agency controlled or supervised by or acting as an instrumentality of the United States of America pursuant to authority granted by the Congress of the United States of America, so long as such obligation or guarantee shall have the benefit of the full faith and credit of the United States of America which shall have been pledged pursuant to authority granted by the Congress of the United States of America.

"Unrestricted Subsidiary" means any Subsidiary which is so designated on **Schedule 5.4** and any Subsidiary acquired after the date of this Agreement which is so designated by the Company pursuant to **Section 9.6**.

"USA PATRIOT Act" means United States Public Law 107-56, Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT ACT) Act of 2001, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"U.S. Economic Sanctions Laws" means those laws, executive orders, enabling legislation or regulations administered and enforced by the United States pursuant to which economic sanctions have been imposed on any Person, entity, organization, country or regime, including the Trading with the Enemy Act, the International Emergency Economic Powers Act, the Iran Sanctions Act, the Sudan Accountability and Divestment Act, each as amended from time to time, and any other OFAC Sanctions Program.

"Wholly-Owned Restricted Subsidiary" means, at any time, any Restricted Subsidiary one hundred percent (100%) of all of the equity interests (except directors' qualifying shares) and voting interests of which are owned by any one or more of the Company and the Company's other Wholly-Owned Restricted Subsidiaries at such time.

"Wholly-Owned Unrestricted Subsidiary" means, at any time, any Unrestricted Subsidiary one hundred percent (100%) of all of the equity interests (except directors' qualifying shares) and voting interests of which are owned by any one or more of the Company and the Company's other Wholly-Owned Unrestricted Subsidiaries at such time.

Changes in Corporate Structure

None.

Schedule 4.9
(to Note Purchase Agreement)

Disclosure Materials

1. Private Placement Memorandum, dated September, 2016.
2. Investor Presentation and discussion on September 26, 2016.
3. Financial Statements listed in Schedule 5.5.

Schedule 5.3
(to Note Purchase Agreement)

Aqua America, Inc.
Subsidiaries of the Company,
Ownership of Subsidiary Stock

Company Name (Any Subsidiary with an "*" is designated as an Unrestricted Subsidiary)	**State of Incorporation**	**%of Ownership (Direct & Indirect)**
Aqua America, Inc.	Pennsylvania	
Aqua Acquisition Corporation	Pennsylvania	100%
G&E Septic, Inc.	New Jersey	100%
Aqua Charitable Trust	Pennsylvania	100%
Aqua Development, Inc.	Texas	100%
Aqua Georgia, Inc.	Georgia	100%
Aqua Illinois, Inc.	Illinois	100%
Aqua Indiana, Inc.	Indiana	100%
Hendricks County Wastewater, LLC	Indiana	100%
Aqua Indiana - South Haven, Inc.	Indiana	100%
South Haven Sewer Works, Inc.	Indiana	100%
Aqua Indiana - Western Hancock, Inc.	Indiana	100%
Western Hancock Utilities, LLC	Indiana	100%
Aqua Holdings, Inc.	Pennsylvania	100%
Aqua Tanks, LLC	Pennsylvania	100%
Old Dominion Pipeline Company, LLC	Pennsylvania	100%
Aqua Infrastructure, LLC	Pennsylvania	100%
Charlevoix Capital Ventures, LLC *	Pennsylvania	100%
Aqua New Jersey, Inc.	New Jersey	100%
Aqua North Carolina, Inc.	North Carolina	100%
Aqua Ohio, Inc.	Ohio	100%
Aqua Ohio Wastewater, Inc.	Ohio	100%
Aqua Operations, Inc.	Delaware	100%
Aqua Pennsylvania, Inc.	Pennsylvania	100%
Aqua Pennsylvania Wastewater, Inc.	Pennsylvania	100%
Honesdale Consolidated Water Company	Pennsylvania	100%
Superior Water Company	Pennsylvania	100%
Aqua Resources, Inc.	Delaware	100%
Aqua Wastewater Management, Inc.	Pennsylvania	100%

Schedule 5.4
(to Note Purchase Agreement)

Aqua Infrastructure Rehabilitation Co., LLC	Delaware	100%
Aqua Water Specialties, LLC	Pennsylvania	100%
Aqua Services, Inc.	Pennsylvania	100%
Aqua Texas, Inc.	Texas	100%
Harper Water Company, Inc.	Texas	100%
Aqua Utilities Florida, Inc.	Florida	100%
Aqua Utilities, Inc.	Texas	100%
Aqua Missouri, Inc.	Missouri	100%
Kerrville South Water Company, Inc.	Texas	100%
Utility Center, Inc.	Indiana	100%
Crystal River Utilities, Inc.	Florida	100%
Aqua Virginia, Inc.	Virginia	100%
Aqua Presidential, Inc.	Virginia	100%
Aqua Utilities Captain's Cove, Inc.	Virginia	100%
Aqua Wintergreen Valley Utility Company	Virginia	100%
Utility & Municipal Services, Inc.	Pennsylvania	100%

Financial Statements

- Aqua America, Inc. and Subsidiaries - Annual audited financials for the fiscal years ended December 31, 2015, 2014, 2013, 2012 and 2011.

- Unaudited financial statements for the fiscal quarter ended June 30, 2016.

Schedule 5.5
(to Note Purchase Agreement)

Aqua America, Inc.
Licenses, Permits, Etc.

None

Schedule 5.11
(to Note Purchase Agreement)

Aqua America, Inc. and Subsidiaries
Existing Debt as of June 30, 2016

Aqua America Consolidated Debt as of June 30, 2016				
				Balance
Long Term Debt				**Outstanding $**
Aqua Illinois, Inc.		Tax Exempt (MBIA)		16,415,000
Aqua Illinois, Inc.		FMB		10,500,000
Aqua Illinois, Inc.		FMB		8,000,000
Aqua Illinois, Inc.		Note		1,000,000
Aqua Illinois, Inc.		FMB		4,500,000
Aqua Illinois, Inc.		FMB		6,000,000
Total Aqua Illinois				**46,415,000**
Aqua New Jersey, Inc.		NJEIT		530,925
Aqua New Jersey, Inc.		NJEIT		520,271
Aqua New Jersey, Inc.		NJEIT		204,305
Aqua New Jersey, Inc.		NJEIT		245,000
Aqua New Jersey, Inc.		NJEIT		973,049
Aqua New Jersey, Inc.		NJEIT		615,000
Aqua New Jersey, Inc.		NJEIT		705,000
Aqua New Jersey, Inc.		FMB		5,000,000
Aqua New Jersey, Inc.		FMB		3,800,000
Aqua New Jersey, Inc.		FMB		6,000,000
Aqua New Jersey, Inc.		FMB		(1) 7,500,000
Aqua New Jersey, Inc.		NJEIT		163,683
Aqua New Jersey, Inc.		NJEIT		180,000
Aqua New Jersey, Inc.		NJEIT		365,000
Aqua New Jersey, Inc.		NJEIT		158,572
Aqua New Jersey, Inc.		NJEIT		666,343
Aqua New Jersey, Inc.		NJEIT		705,000
Total Aqua New Jersey				**28,332,148**
Aqua Ohio, Inc.		Tax Exempt (AMBAC)		5,240,000
Aqua Ohio, Inc.		Tax Exempt (AMBAC)		5,465,000
Aqua Ohio, Inc.		FMB		3,200,000
Aqua Ohio, Inc.		Note		998,705
Aqua Ohio, Inc.		FMB		5,000,000

Schedule 5.15
(to Note Purchase Agreement)

Aqua Ohio, Inc.		FMB		4,500,000
Aqua Ohio, Inc.		FMB		30,000,000
Aqua Ohio, Inc.		FMB		35,000,000
Aqua Ohio, Inc.		Bond Premium		2,523,241
Aqua Ohio, Inc.		FMB		20,000,000
Total Aqua Ohio				**111,926,946**
Aqua Pa, Inc.		Unsecured Note		2,132,180
Aqua Pa, Inc.		Unsecured Note		(2) 4,489,000
Aqua Pa, Inc.		Unsecured Note		5,466,000
Aqua Pa, Inc.		Unsecured Note		5,461,000
Aqua Pa, Inc.		Unsecured Note		10,000,000
Aqua Pa, Inc.		Unsecured Note		10,000,000
Aqua Pa, Inc.		Unsecured Note		10,000,000
Aqua Pa, Inc.		Unsecured Note		10,000,000
Aqua Pa, Inc.		Note		50,000,000
Aqua Pa, Inc.		Note		50,000,000
Total Aqua Pa Notes				**157,548,180**
Aqua Pa, Inc.		Tax Exempt		23,915,000
Aqua Pa, Inc.		Tax Exempt		23,915,000
Aqua Pa, Inc.		Tax Exempt-Bond Premium		1,557,662
Aqua Pa, Inc.		Tax Exempt		24,830,000
Aqua Pa, Inc.		Tax Exempt		24,830,000
Aqua Pa, Inc.		Tax Exempt-Bond Premium		255,922
Aqua Pa, Inc.		Tax Exempt		9,000,000
Aqua Pa, Inc.		Tax Exempt		13,000,000
Aqua Pa, Inc.		Tax Exempt-Bond Discount		(25,500)
Aqua Pa, Inc.		Tax Exempt		58,000,000
Aqua Pa, Inc.		Tax Exempt-Bond Discount		(1,557,540)
Aqua Pa, Inc.		Tax Exempt		62,165,000
Aqua Pa, Inc.		Tax Exempt-Bond Premium		479,285
Aqua Pa, Inc.		Tax Exempt		12,520,000
Aqua Pa, Inc.		Tax Exempt-Bond Discount		(234,577)
Aqua Pa, Inc.		Tax Exempt		25,910,000
Aqua Pa, Inc.		Tax Exempt		19,270,000
Aqua Pa, Inc.		Tax Exempt-Bond Discount		(102,390)
Aqua Pa, Inc.		Tax Exempt		15,000,000
Aqua Pa, Inc.		Tax Exempt-Bond Discount		(506,400)
Aqua Pa, Inc.		Tax Exempt		81,205,000
Aqua Pa, Inc.		Tax Exempt-Bond Premium		2,145,561

Total Aqua Pa Tax Exempt				**395,572,023**
Aqua Pa, Inc.		Coal Twsp Tank		513,523
Aqua Pa, Inc.		Roaring Creek Main Repl		975,641
Aqua Pa, Inc.		Sharon New Castle		327,422
Aqua Pa, Inc.		Honesdale Water		899,217
Aqua Pa, Inc.		2009 NE Mains		1,758,869
Aqua Pa, Inc.		Eagle Rock Phase II		578,467
Aqua Pa, Inc.		Emlenton		2,352,945
Aqua Pa, Inc.		Shenango Intake Dam		1,042,836
Aqua Pa, Inc.		Pickering Dam		248,393
Aqua Pa, Inc.		Susquehanna		49,475
Aqua Pa, Inc.		Glenside Tank		115,796
Aqua Pa, Inc.		Bristol		1,312,982
Aqua Pa, Inc.		Ferndale Booster		124,995
Aqua Pa, Inc.		Susquehanna		133,952
Aqua Pa, Inc.		North Wayne # 2		388,944
Aqua Pa, Inc.		Shenango		422,248
Aqua Pa, Inc.		Crum Water Treatment		4,597,274
Aqua Pa, Inc.		White Rock Acres		371,495
Aqua Pa, Inc.		Midway Manor		1,573,182
Aqua Pa, Inc.		Fernhill Tank		210,662
Aqua Pa, Inc.		Tank Paintings		887,293
Aqua Pa, Inc.		North Wayne # 1		481,076
Aqua Pa, Inc.		Meyers Tract		573,343
Aqua Pa, Inc.		Caanan		800,070
Aqua Pa, Inc.		Neshmainy		3,039,431
Aqua Pa, Inc.		Tinicum Boster		175,741
Aqua Pa, Inc.		Pickering West		1,399,515
Aqua Pa, Inc.		NE Mains 2005		732,217
Aqua Pa, Inc.		Eagle Rock/Oneida		885,818
Aqua Pa, Inc.		NE Mains 2007		437,882
Aqua Pa, Inc.		Crum Filtration		1,019,717
Aqua Pa, Inc.		Brush Valley Wells		1,148,855
Aqua Pa, Inc.		Forest Park		827,452
Aqua Pa, Inc.		Shady Acres		964,535
Aqua Pa, Inc.		Bristol Residuals		1,586,930
Aqua Pa, Inc.		Washington Park Water		768,579
Aqua Pa, Inc.		Neshaminy Water Treatment		7,206,120
Aqua Pa, Inc.		Well #20		289,976
Aqua Pa, Inc.		NUI		2,402,238
Aqua Pa, Inc.		NE PA Mains		1,154,083
Aqua Pa, Inc.		Country Club Gardens		914,787
Aqua Pa, Inc.		Tafton Water System		348,872

Aqua Pa, Inc.		Shickshinny		172,670
Aqua Pa, Inc.		Wapwallopen		151,019
Aqua Pa, Inc.		Moscow		608,270
Aqua Pa, Inc.		Ingrams Mill		3,897,403
Aqua Pa, Inc.		Fawn Lake		994,250
Aqua Pa, Inc.		Ralpho Tank		294,745
Aqua Pa, Inc.		Wilbar		1,196,859
Aqua Pa, Inc.		Paupac		1,420,525
Aqua Pa, Inc.		Mountain Home		1,431,022
Total Aqua Pa Pennvest				**56,209,609**
Aqua Pa, Inc.		FMB		7,000,000
Aqua Pa, Inc.		FMB		15,000,000
Aqua Pa, Inc.		FMB		5,000,000
Aqua Pa, Inc.		FMB		3,000,000
Aqua Pa, Inc.		FMB		15,000,000
Aqua Pa, Inc.		FMB		5,000,000
Aqua Pa, Inc.		FMB		15,000,000
Aqua Pa, Inc.		FMB		2,400,000
Aqua Pa, Inc.		FMB		12,000,000
Aqua Pa, Inc.		FMB		5,000,000
Aqua Pa, Inc.		FMB		40,000,000
Aqua Pa, Inc.		FMB		20,000,000
Aqua Pa, Inc.		FMB		20,000,000
Aqua Pa, Inc.		FMB		25,000,000
Aqua Pa, Inc.		FMB		25,000,000
Aqua Pa, Inc.		FMB		25,000,000
Aqua Pa, Inc.		FMB		25,000,000
Aqua Pa, Inc.		FMB		15,000,000
Aqua Pa, Inc.		FMB		13,000,000
Aqua Pa, Inc.		FMB		12,000,000
Aqua Pa, Inc.		FMB		65,000,000
Aqua Pa, Inc.		FMB		20,000,000
Aqua Pa, Inc.		FMB		25,000,000
Aqua Pa, Inc.		FMB		60,000,000
Aqua Pa, Inc.		FMB		20,000,000
Aqua Pa, Inc.		FMB		20,000,000
Total Aqua Pa Taxable FMBs				**514,400,000**
Little Washington Wastewater		Note		545,743
Little Washington Wastewater		Note		1,124,578
Washington Park WW		Washington Park		644,748

Aqua Pa, Inc.		Hawley		209,965
Aqua Pa, Inc.		Hawley		92,330
Rivercrest		Note		214,447
Honesdale		Note		39,167
Total Little Washington Waste Water				**2,870,978**
Aqua America, Inc.		PNC Revolving Credit Facility		133,000,000
Aqua America, Inc.		Senior Unsecured Notes		50,000,000
Aqua America, Inc.		Senior Unsecured Notes		(3) 10,800,000
Aqua America, Inc.		Senior Unsecured Notes		10,800,000
Aqua America, Inc.		Senior Unsecured Notes		10,800,000
Aqua America, Inc.		Senior Unsecured Notes		16,200,000
Aqua America, Inc.		Senior Unsecured Notes		10,800,000
Aqua America, Inc.		Unsecured Note - Series B		12,000,000
Aqua America, Inc.		Senior Unsecured Notes		5,250,000
Aqua America, Inc.		Senior Unsecured Notes		2,250,000
Aqua America, Inc.		Senior Unsecured Notes		2,250,000
Aqua America, Inc.		Senior Unsecured Notes		20,000,000
Aqua America, Inc.		Senior Unsecured Notes		15,000,000
Aqua America, Inc.		Senior Unsecured Notes		15,000,000
Aqua America, Inc.		Senior Unsecured Notes		15,000,000
Aqua America, Inc.		Senior Unsecured Notes		20,000,000
Aqua America, Inc.		Senior Unsecured Notes		35,000,000
Aqua America, Inc.		Senior Unsecured Notes		12,300,000
Aqua America, Inc.		Senior Unsecured Notes		4,700,000
Aqua America, Inc.		Senior Unsecured Notes		16,500,000
Aqua America, Inc.		Senior Unsecured Notes		500,000
Aqua America, Inc.		Senior Unsecured Notes		13,000,000
Aqua America, Inc.		Senior Unsecured Notes		3,000,000
Aqua America, Inc.		Senior Unsecured Notes		70,000,000
Total Aqua America				**504,150,000**
Heater Utilities, Inc.		FMB		3,192,583
Heater Utilities, Inc.		FMB		5,061,393
Heater Utilities, Inc.				202,485
Heater Utilities, Inc.				726,505
Aqua NC				1,459,459
Aqua NC				1,098,922
Total Aqua North Carolina				**11,741,347**
Aqua Texas		Notes		**7,112,941**

Consolidated Long Term Debt				**1,836,279,170**
Short Term Debt				
Aqua Pennsylvania		PNC Revolver		25,249,427
Aqua North Carolina		CoBank line of credit		990,246
Total Short Term Debt				**26,239,673**
[(1)] Aqua New Jersey redeemed $7.5 million mortgage bond on 8/31/16.				
[(2)] Aqua Pennsylvania repaid $4.489 million scheduled maturity on 9/30/16.				
[(3)] Aqua America repaid $10.8 million scheduled maturity on 7/31/16.				

[Form of Series A Note]

Aqua America, Inc.

3.01% Senior Note, Series A, due November 3, 2031

No. RA-[_____] [_____, 20__]
$[_____] PPN 03836W E*0

For Value Received, the undersigned, Aqua America, Inc. (herein called the *"Company"*), a corporation organized and existing under the laws of the Commonwealth of Pennsylvania, hereby promises to pay to [_____] or registered assigns, the principal sum of [_____] Dollars on November 3, 2031 with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the rate of 3.01% per annum from the date hereof, payable semi-annually, on the third day of May and November in each year and at maturity, commencing May 3, 2017, until the principal hereof shall have become due and payable, and (b) to the extent permitted by law on any overdue payment (including any overdue prepayment) of principal, any overdue payment of interest and any overdue payment of any Make-Whole Amount (as defined in the Note Purchase Agreement referred to below), payable semi-annually as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the greater of (i) 5.01% or (ii) 2% over the rate of interest publicly announced by JP Morgan Chase Bank, N.A. from time to time in New York, New York as its "base" or "prime" rate.

Payments of principal of, interest on and any Make-Whole Amount with respect to this Note are to be made in lawful money of the United States of America at the principal office of JP Morgan Chase Bank, N.A. in New York, New York or at such other place as the Company shall have designated by written notice to the holder of this Note as provided in the Note Purchase Agreement referred to below.

This Note is one of a series of Senior Notes (herein called the *"Notes"*) issued pursuant to the Note Purchase Agreement, dated as of November 3, 2016 (as from time to time amended, the *"Note Purchase Agreement"*), between the Company and the respective Purchasers named therein and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in Section 20 of the Note Purchase Agreement and (ii) to have made the representation set forth in Section 6.3 of the Note Purchase Agreement.

This Note is a registered Note and, as provided in the Note Purchase Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the Person in whose name this Note is registered as the owner hereof for the

purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

The Company will make required prepayments of principal on the dates and in the amounts specified in the Note Purchase Agreement. This Note is also subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the Note Purchase Agreement, but not otherwise.

If an Event of Default, as defined in the Note Purchase Agreement, occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount) and with the effect provided in the Note Purchase Agreement.

[Remainder of Page Intentionally Left Blank]

This Note shall be construed and enforced in accordance with, and the rights of the Company and holder hereof shall be governed by, the law of the State of New York excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

Aqua America, Inc.

By:
Name:
Title:

[Form of Series B Note]

Aqua America, Inc.

3.19% Senior Note, Series B, due November 3, 2034

No. RB-[_____] [_____, 20__]
$[_____] PPN 03836W E@8

For Value Received, the undersigned, Aqua America, Inc. (herein called the *"Company"*), a corporation organized and existing under the laws of the Commonwealth of Pennsylvania, hereby promises to pay to [_____] or registered assigns, the principal sum of [_____] Dollars on November 3, 2034 with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the rate of 3.19% per annum from the date hereof, payable semi-annually, on the third day of May and November in each year and at maturity, commencing May 3, 2017, until the principal hereof shall have become due and payable, and (b) to the extent permitted by law on any overdue payment (including any overdue prepayment) of principal, any overdue payment of interest and any overdue payment of any Make-Whole Amount (as defined in the Note Purchase Agreement referred to below), payable semi-annually as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the greater of (i) 5.19% or (ii) 2% over the rate of interest publicly announced by JP Morgan Chase Bank, N.A. from time to time in New York, New York as its "base" or "prime" rate.

Payments of principal of, interest on and any Make-Whole Amount with respect to this Note are to be made in lawful money of the United States of America at the principal office of JP Morgan Chase Bank, N.A. in New York, New York or at such other place as the Company shall have designated by written notice to the holder of this Note as provided in the Note Purchase Agreement referred to below.

This Note is one of a series of Senior Notes (herein called the *"Notes"*) issued pursuant to the Note Purchase Agreement, dated as of November 3, 2016 (as from time to time amended, the *"Note Purchase Agreement"*), between the Company and the respective Purchasers named therein and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in Section 20 of the Note Purchase Agreement and (ii) to have made the representation set forth in Section 6.3 of the Note Purchase Agreement.

This Note is a registered Note and, as provided in the Note Purchase Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the Person in whose name this Note is registered as the owner hereof for the

purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

The Company will make required prepayments of principal on the dates and in the amounts specified in the Note Purchase Agreement. This Note is also subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the Note Purchase Agreement, but not otherwise.

If an Event of Default, as defined in the Note Purchase Agreement, occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount) and with the effect provided in the Note Purchase Agreement.

[Remainder of Page Intentionally Left Blank]

This Note shall be construed and enforced in accordance with, and the rights of the Company and holder hereof shall be governed by, the law of the State of New York excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

Aqua America, Inc.

By:
Name:
Title:

[Form of Series C Note]

Aqua America, Inc.

3.25% Senior Note, Series C, due November 3, 2035

No. RC-[_____] [_____, 20__]
$[_____] PPN 03836W E#6

For Value Received, the undersigned, Aqua America, Inc. (herein called the *"Company"*), a corporation organized and existing under the laws of the Commonwealth of Pennsylvania, hereby promises to pay to [_____] or registered assigns, the principal sum of [_____] Dollars on November 3, 2035 with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the rate of 3.25% per annum from the date hereof, payable semi-annually, on the third day of May and November in each year and at maturity, commencing May 3, 2017, until the principal hereof shall have become due and payable, and (b) to the extent permitted by law on any overdue payment (including any overdue prepayment) of principal, any overdue payment of interest and any overdue payment of any Make-Whole Amount (as defined in the Note Purchase Agreement referred to below), payable semi-annually as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the greater of (i) 5.25% or (ii) 2% over the rate of interest publicly announced by JP Morgan Chase Bank, N.A. from time to time in New York, New York as its "base" or "prime" rate.

Payments of principal of, interest on and any Make-Whole Amount with respect to this Note are to be made in lawful money of the United States of America at the principal office of JP Morgan Chase Bank, N.A. in New York, New York or at such other place as the Company shall have designated by written notice to the holder of this Note as provided in the Note Purchase Agreement referred to below.

This Note is one of a series of Senior Notes (herein called the *"Notes"*) issued pursuant to the Note Purchase Agreement, dated as of November 3, 2016 (as from time to time amended, the *"Note Purchase Agreement"*), between the Company and the respective Purchasers named therein and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in Section 20 of the Note Purchase Agreement and (ii) to have made the representation set forth in Section 6.3 of the Note Purchase Agreement.

This Note is a registered Note and, as provided in the Note Purchase Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the Person in whose name this Note is registered as the owner hereof for the

purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

The Company will make required prepayments of principal on the dates and in the amounts specified in the Note Purchase Agreement. This Note is also subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the Note Purchase Agreement, but not otherwise.

If an Event of Default, as defined in the Note Purchase Agreement, occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount) and with the effect provided in the Note Purchase Agreement.

[Remainder of Page Intentionally Left Blank]

This Note shall be construed and enforced in accordance with, and the rights of the Company and holder hereof shall be governed by, the law of the State of New York excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

Aqua America, Inc.

By:
Name:
Title:

[Form of Series D Note]

Aqua America, Inc.

3.41% Senior Note, Series D, due November 3, 2038

No. RD-[_____] [_____, 20__]
$[_____] PPN 03836W F*9

For Value Received, the undersigned, Aqua America, Inc. (herein called the *"Company"*), a corporation organized and existing under the laws of the Commonwealth of Pennsylvania, hereby promises to pay to [_____] or registered assigns, the principal sum of [_____] Dollars on November 3, 2038 with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the rate of 3.41% per annum from the date hereof, payable semi-annually, on the third day of May and November in each year and at maturity, commencing May 3, 2017, until the principal hereof shall have become due and payable, and (b) to the extent permitted by law on any overdue payment (including any overdue prepayment) of principal, any overdue payment of interest and any overdue payment of any Make-Whole Amount (as defined in the Note Purchase Agreement referred to below), payable semi-annually as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the greater of (i) 5.41% or (ii) 2% over the rate of interest publicly announced by JP Morgan Chase Bank, N.A. from time to time in New York, New York as its "base" or "prime" rate.

Payments of principal of, interest on and any Make-Whole Amount with respect to this Note are to be made in lawful money of the United States of America at the principal office of JP Morgan Chase Bank, N.A. in New York, New York or at such other place as the Company shall have designated by written notice to the holder of this Note as provided in the Note Purchase Agreement referred to below.

This Note is one of a series of Senior Notes (herein called the *"Notes"*) issued pursuant to the Note Purchase Agreement, dated as of November 3, 2016 (as from time to time amended, the *"Note Purchase Agreement"*), between the Company and the respective Purchasers named therein and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in Section 20 of the Note Purchase Agreement and (ii) to have made the representation set forth in Section 6.3 of the Note Purchase Agreement.

This Note is a registered Note and, as provided in the Note Purchase Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the Person in whose name this Note is registered as the owner hereof for the

purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

The Company will make required prepayments of principal on the dates and in the amounts specified in the Note Purchase Agreement. This Note is also subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the Note Purchase Agreement, but not otherwise.

If an Event of Default, as defined in the Note Purchase Agreement, occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount) and with the effect provided in the Note Purchase Agreement.

[Remainder of Page Intentionally Left Blank]

This Note shall be construed and enforced in accordance with, and the rights of the Company and holder hereof shall be governed by, the law of the State of New York excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

Aqua America, Inc.

By:
Name:
Title:

[Form of Series E Note]

Aqua America, Inc.

3.57% Senior Note, Series E, due November 3, 2041

No. RE-[_____] [_____, 20__]
$[_____] PPN 03836W F@7

For Value Received, the undersigned, Aqua America, Inc. (herein called the *"Company"*), a corporation organized and existing under the laws of the Commonwealth of Pennsylvania, hereby promises to pay to [_____] or registered assigns, the principal sum of [_____] Dollars on November 3, 2041 with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the rate of 3.57% per annum from the date hereof, payable semi-annually, on the third day of May and November in each year and at maturity, commencing May 3, 2017, until the principal hereof shall have become due and payable, and (b) to the extent permitted by law on any overdue payment (including any overdue prepayment) of principal, any overdue payment of interest and any overdue payment of any Make-Whole Amount (as defined in the Note Purchase Agreement referred to below), payable semi-annually as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the greater of (i) 5.57% or (ii) 2% over the rate of interest publicly announced by JP Morgan Chase Bank, N.A. from time to time in New York, New York as its "base" or "prime" rate.

Payments of principal of, interest on and any Make-Whole Amount with respect to this Note are to be made in lawful money of the United States of America at the principal office of JP Morgan Chase Bank, N.A. in New York, New York or at such other place as the Company shall have designated by written notice to the holder of this Note as provided in the Note Purchase Agreement referred to below.

This Note is one of a series of Senior Notes (herein called the *"Notes"*) issued pursuant to the Note Purchase Agreement, dated as of November 3, 2016 (as from time to time amended, the *"Note Purchase Agreement"*), between the Company and the respective Purchasers named therein and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in Section 20 of the Note Purchase Agreement and (ii) to have made the representation set forth in Section 6.3 of the Note Purchase Agreement.

This Note is a registered Note and, as provided in the Note Purchase Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the Person in whose name this Note is registered as the owner hereof for the

purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

The Company will make required prepayments of principal on the dates and in the amounts specified in the Note Purchase Agreement. This Note is also subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the Note Purchase Agreement, but not otherwise.

If an Event of Default, as defined in the Note Purchase Agreement, occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount) and with the effect provided in the Note Purchase Agreement.

[Remainder of Page Intentionally Left Blank]

This Note shall be construed and enforced in accordance with, and the rights of the Company and holder hereof shall be governed by, the law of the State of New York excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

Aqua America, Inc.

By:
Name:
Title:

Form of Opinion of General Counsel
to the Company

The closing opinion of Christopher P. Luning, Esq., General Counsel of the Company, which is called for by Section 4.4 of the Note Purchase Agreement, shall be dated the date of Closing and addressed to the Purchasers, shall be satisfactory in scope and form to each Purchaser and shall be to the effect that:

1. The Company has the corporate power and the corporate authority to conduct the activities in which it is now engaged and is duly licensed or qualified and is in good standing as a foreign corporation in each jurisdiction in which the character of the properties owned or leased by it or the nature of the business transacted by it makes such licensing or qualification necessary except in jurisdictions where the failure to be so qualified or licensed would not have a Material Adverse Effect on the business of the Company.

2. Each Subsidiary is a corporation duly incorporated and validly existing under the laws of its jurisdiction of incorporation, and is duly licensed or qualified and has valid and subsisting franchises and certificates of convenience and necessity in each jurisdiction in which the character of the properties owned or leased by it or the nature of the business transacted by it makes such licensing or qualification or the possession of such franchises and certificates of convenience and necessity necessary except in jurisdictions where the failure to be so qualified or licensed to possess such would not have a material adverse effect on the business of the Subsidiaries and the Company taken as a whole. Except as set forth in Schedule 5.4 to the Note Purchase Agreement, all of the issued and outstanding shares of capital stock of each such Subsidiary have been duly issued, are fully paid and non-assessable and are owned by the Company, by one or more Subsidiaries, or by the Company and one or more Subsidiaries.

3. The issuance and sale of the Notes and the execution, delivery and performance by the Company of the Note Purchase Agreement do not violate any provision of any law or other rule or regulation of any Governmental Authority applicable to the Company or any Subsidiary or conflict with or result in any breach of any of the provisions of or constitute a default under or result in the creation or imposition of any Lien upon any of the property of the Company pursuant to the provisions of the Articles of Incorporation or By-laws of the Company or any agreement or other instrument known to such counsel to which the Company is a party or by which the Company may be bound.

4. There is no action, suit or proceeding pending or, to the knowledge of such counsel after due inquiry, threatened against or affecting the Company or any Subsidiary in any court or before any governmental authority or arbitration board or tribunal with respect to which a Material Adverse Effect is probable in accordance with the applicable requirements of accounting for contingencies under Financial Accounting Standards Board's Accounting Standards Codification. To the knowledge of such counsel, neither the Company nor any Subsidiary is in default with respect to any order of any court or governmental authority, or arbitration board or tribunal which default would have a Material Adverse Effect on the Subsidiaries and the Company taken as a whole.

The opinion of Christopher P. Luning, Esq., shall cover such other matters relating to the sale of the Notes as each Purchaser may reasonably request. With respect to matters of fact on which such opinion is based, such counsel shall be entitled to rely on appropriate certificates of public officials and other officers of the Company.

Form of Opinion of Special Counsel
to the Company

The closing opinion of Dilworth Paxson, LLP, special counsel to the Company, which is called for by Section 4.4 of the Note Purchase Agreement, shall be dated the date of Closing and addressed to the Purchasers, shall be satisfactory in scope and form to each Purchaser and shall be to the effect that:

1. The Company is a corporation presently subsisting under the laws of the Commonwealth of Pennsylvania ("Commonwealth").

2. The Company has the corporate power and the corporate authority to execute, deliver and perform all of its obligations under the Note Purchase Agreement and to issue the Notes and has the corporate power and the corporate authority to conduct the activities in which it is now engaged.

3. The Note Purchase Agreement has been duly authorized, executed and delivered by the Company and constitutes the legal, valid and binding contract of the Company enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

4. The Notes constitute the legal, valid and binding obligations of the Company enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

5. No approval, consent or withholding of objection on the part of, or filing, registration or qualification with, any governmental body, federal or state, is necessary in connection with the execution and delivery of the Note Purchase Agreement or the Notes.

6. The issuance, sale and delivery of the Notes under the circumstances contemplated by the Note Purchase Agreement do not, under existing law, require the registration of the Notes under the Securities Act of 1933, as amended, or the qualification of an indenture under the Trust Indenture Act of 1939, as amended.

7. Neither the issuance of the Notes nor the application of the proceeds of the sale of the Notes will violate or result in a violation of Section 7 of the Securities Exchange Act of 1934, as amended, or any regulation issued pursuant thereto, including, without limitation, Regulation T, U or X of the Board of Governors of the Federal Reserve System.

7. The Company is not an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

The opinion of Dilworth Paxson, LLP, shall cover such other matters relating to the sale of the Notes as each Purchaser may reasonably request. With respect to matters of fact on which such opinion is based, such counsel shall be entitled to rely on appropriate certificates of public officials and other officers of the Company.

Form of Opinion of Special Counsel
to the Purchasers

To be provided to the Purchasers only.

Exhibit 4.4(c)
(to Note Purchase Agreement)

Aqua Pennsylvania, Inc.

$135,000,000

$25,000,000 First Mortgage Bonds, 3.85% Series due 2051

$60,000,000 First Mortgage Bonds, 3.95% Series due 2056

$10,000,000 First Mortgage Bonds, 3.65% Series due 2042

$40,000,000 First Mortgage Bonds, 3.69% Series due 2044

_____

Bond Purchase Agreement

_____

Dated as of December 15, 2016

Table of Contents

Aqua Pennsylvania, Inc.
762 West Lancaster Avenue
Bryn Mawr, Pennsylvania 19010-3489

$135,000,000

$25,000,000 First Mortgage Bonds, 3.85% Series due 2051
$60,000,000 First Mortgage Bonds, 3.95% Series due 2056
$10,000,000 First Mortgage Bonds, 3.65% Series due 2042
$40,000,000 First Mortgage Bonds, 3.69% Series due 2044

As of December 15, 2016

To Each of the Purchasers Listed in
Schedule A Hereto:

Ladies and Gentlemen:

Aqua Pennsylvania, Inc., a corporation organized under the laws of the Commonwealth of Pennsylvania (the *"Company"*), agrees with each of the purchasers whose names appear at the end hereof (each, a *"Purchaser"* and, collectively, the *"Purchasers"*) as follows:

Section 1. Authorization of Bonds .

The Company will authorize the issue and sale of (i) First Mortgage Bonds, 3.85% Series due 2051 (herein referred to as the *"3.85% Series due 2051 Bonds"*) in an aggregate principal amount of $25,000,000, to bear interest at the rate of 3.85% per annum, and to mature on January 15, 2051, (ii) First Mortgage Bonds, 3.95% Series due 2056 (herein referred to as the *"3.95% Series due 2056 Bonds"*) in an aggregate principal amount of $60,000,000, to bear interest at the rate of 3.95% per annum, and to mature on January 15, 2056, (iii) First Mortgage Bonds, 3.65% Series due 2042 (herein referred to as the *"3.65% Series due 2042 Bonds"*) in an aggregate principal amount of $10,000,000, to bear interest at the rate of 3.65% per annum, and to mature on February 1, 2042, and (iv) First Mortgage Bonds, 3.69% Series due 2044 (herein referred to as the *"3.69% Series due 2044 Bonds"*) to be limited in aggregate principal amount to $40,000,000, to bear interest at the rate of 3.69% per annum, and to mature on February 1, 2044 (the 3.85% Series due 2051 Bonds, the 3.95% Series due 2056 Bonds, the 3.65% Series due 2042 Bonds and the 3.69% Series due 2044 Bonds are collectively referred to as the *"Bonds"* and such term includes any such bonds issued in substitution therefor). The Bonds will be issued under and secured by that certain Indenture of Mortgage dated as of January 1, 1941, from the Company (as successor by merger to the Philadelphia Suburban Water Company), as grantor, to The Bank of New York Mellon Trust Company, N.A. , as successor trustee (the "*Trustee*") (the *"Original Indenture"*), as previously amended and supplemented by fifty supplemental indentures and as further supplemented by the Fifty-first Supplemental Indenture dated as of November 1, 2016 (such Fifty-first Supplemental Indenture being referred to herein as the *"Supplement"*) which will be substantially in the form attached hereto as Exhibit A, with such

changes therein, if any, as shall be approved by the Purchasers and the Company. The Original Indenture, as supplemented and amended by the aforementioned fifty supplemental indentures and the Supplement, and as further supplemented or amended according to its terms, is hereinafter referred to as the *"Indenture"*. Certain capitalized and other terms used in this Agreement are defined in Schedule B; and references to a *"Schedule"* or an *"Exhibit"* are, unless otherwise specified, to a Schedule or an Exhibit attached to this Agreement. Terms used herein but not defined herein shall have the meanings set forth in the Indenture.

Section 2. Sale and Purchase of Bonds .

Subject to the terms and conditions of this Agreement, the Company will issue and sell to each Purchaser and each Purchaser will purchase from the Company, at each Closing provided for in Section 3, Bonds in the principal amount and in the series specified opposite such Purchaser's name in Schedule A at the purchase price of 100% of the principal amount thereof. The Purchasers' obligations hereunder are several and not joint obligations and no Purchaser shall have any liability to any Person for the performance or non-performance of any obligation by any other Purchaser hereunder.

Section 3. Closings .

The execution and delivery of this Agreement and the sale and purchase of the Bonds to be purchased by each Purchaser shall occur at the offices of Chapman and Cutler LLP, 111 West Monroe Street, Chicago, Illinois 60603, at 10:00 a.m., Chicago time, at two separate closings (each a *"Closing"*), the first of which (for the 3.85% Series due 2051 Bonds and the 3.95% Series due 2056 Bonds) shall occur on December 15, 2016 or on such other Business Day thereafter on or prior to December 31, 2016 as may be agreed upon by the Company and the Purchasers (the *"First Closing"*), and the second of which (for the 3.65% Series due 2042 Bonds and the 3.69% Series due 2044 Bonds) will occur on January 31, 2017, or on such other Business Day thereafter on or prior to February 15, 2017 as may be agreed upon by the Company and the Purchasers (the *"Second Closing"*). At each such Closing the Company will deliver to each Purchaser the Bonds to be purchased by such Purchaser in the form of one or more Bonds to be purchased by such Purchaser, as applicable, in such denominations as such Purchaser may request (with a minimum denomination of $100,000 for each Bond), dated the date of such Closing and registered in such Purchaser's name (or in the name of its nominee), against delivery by such Purchaser to the Company or its order of immediately available funds in the amount of the purchase price therefor by wire transfer of immediately available funds for Account Number: 8559742757, Account Name: Aqua Pennsylvania, Inc., at PNC Bank, N.A., Philadelphia, Pennsylvania, ABA Number 031-000053. If at either Closing the Company shall fail to tender such Bonds to any Purchaser as provided above in this Section 3, or any of the conditions specified in Section 4 shall not have been fulfilled to such Purchaser's satisfaction, such Purchaser shall, at its election, be relieved of all further obligations under this Agreement, without thereby waiving any rights such Purchaser may have by reason of such failure by the Company to tender such Bonds or any of the conditions specified in Section 4 not having been fulfilled to such Purchaser's satisfaction.

Section 4. Conditions to Closing .

Each Purchaser's obligation to execute and deliver this Agreement and to purchase and pay for the Bonds to be sold to such Purchaser at the applicable Closing is subject to the fulfillment to such Purchaser's satisfaction prior to or at such Closing of the following conditions:

Section 4.1. Representations and Warranties . The representations and warranties of the Company in this Agreement shall be correct when made and at the time of such Closing.

Section 4.2. Performance; No Default . The Company shall have performed and complied with all agreements and conditions contained in each Financing Agreement required to be performed or complied with by the Company prior to or at such Closing, and after giving effect to the issue and sale of the 3.85% Series due 2051 Bonds and the 3.95% Series due 2056 Bonds, or the 3.65% Series due 2042 Bonds and the 3.69% Series due 2044 Bonds, as applicable, (and the application of the proceeds thereof as contemplated by Section 5.14), no Default or Event of Default shall have occurred and be continuing.

Section 4.3. Compliance Certificates . The Company shall have performed and complied with all agreements and conditions contained in the Indenture which are required to be performed or complied with by the Company for the issuance of the Bonds at such Closing. In addition the Company shall have delivered the following certificates:

(a) *Officer's Certificate.* The Company shall have delivered to such Purchaser (i) an Officer's Certificate, dated the date of such Closing, certifying that the conditions specified in Section 4 of this Agreement have been fulfilled, and (ii) copies of all certificates and opinions required to be delivered to the Trustee under the Indenture in connection with the issuance of the 3.85% Series due 2051 Bonds and the 3.95% Series due 2056 Bonds, or the 3.65% Series due 2042 Bonds and the 3.69% Series due 2044 Bonds, as applicable, under the Indenture, in each case, dated the date of such Closing.

(b) *Secretary's Certificate.* The Company shall have delivered to such Purchaser a certificate of its Secretary or Assistant Secretary, dated the date of such Closing, certifying as to the resolutions attached thereto and other corporate proceedings relating to the authorization, execution and delivery of this Agreement, the 3.85% Series due 2051 Bonds and the 3.95% Series due 2056 Bonds, or the 3.65% Series due 2042 Bonds and the 3.69% Series due 2044 Bonds, as applicable, under the Indenture, and the Supplement.

(c) *Certification of Indenture.* Such Purchaser shall have received a composite copy of the Indenture (together with all amendments and supplements thereto), certified by the Company as of the date of such Closing, exclusive of property exhibits, recording information and the like.

Section 4.4. Opinions of Counsel . Such Purchaser shall have received opinions in form and substance satisfactory to such Purchaser, dated the date of such Closing (a) from Christopher P. Luning, counsel for the Company, covering the matters set forth in Exhibit 4.4(a) and covering such other matters incident to the transactions contemplated hereby as such Purchaser or its counsel may reasonably request (and the Company hereby instructs its counsel to deliver such opinion to the Purchasers) and (b) from Dilworth Paxson, LLP, special counsel to the Company, covering the matters set forth in Exhibit 4.4(b) and covering such other matters incident to the transactions contemplated hereby as such Purchaser or such Purchaser's counsel may reasonably request (and the Company hereby instructs its counsel to deliver such opinion to the Purchasers), and (c) from Chapman and Cutler LLP, the Purchasers' special counsel in connection with such transactions, substantially in the form set forth in Exhibit 4.4(c) and covering such other matters incident to such transactions as such Purchaser may reasonably request. The Company hereby directs its counsel to deliver the opinions required by this Section 4.4 and understands and agrees that each Purchaser will and hereby is authorized to rely on such opinions.

Section 4.5. Purchase Permitted by Applicable Law, Etc . On the date of such Closing such Purchaser's purchase of Bonds shall (a) be permitted by the laws and regulations of each jurisdiction to which such Purchaser is subject, without recourse to provisions (such as section 1405(a)(8) of the New York Insurance Law) permitting limited investments by insurance companies without restriction as to the character of the particular investment, (b) not violate any applicable law or regulation (including, without limitation, Regulation T, U or X of the Board of Governors of the Federal Reserve System) and (c) not subject such Purchaser to any tax, penalty or liability under or pursuant to any applicable law or regulation, which law or regulation was not in effect on the date of either Closing. If requested by such Purchaser, such Purchaser shall have received an Officer's Certificate certifying as to such matters of fact as such Purchaser may reasonably specify to enable such Purchaser to determine whether such purchase is so permitted.

Section 4.6. Sale of Bonds . Contemporaneously with such Closing, the Company shall sell to each Purchaser and each Purchaser shall purchase the Bonds to be purchased by it at such Closing as specified in Schedule A. In the case of the Second Closing, the transactions contemplated herein with respect to the First Closing shall have been consummated in accordance with the terms hereof.

Section 4.7. Payment of Special Counsel Fees . Without limiting the provisions of Section 12.2, the Company shall have paid on or before such Closing the reasonable fees, reasonable charges and reasonable disbursements of the Purchasers' special counsel referred to in Section 4.4(c) to the extent reflected in a statement of such counsel rendered to the Company at least one Business Day prior to the Closing.

Section 4.8. Private Placement Number . A Private Placement Number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the SVO) shall have been obtained for the series of Bonds issued at such Closing.

Section 4.9. Changes in Corporate Structure . The Company shall not have changed its jurisdiction of incorporation or organization, as applicable, or been a party to any merger or

consolidation or succeeded to all or any substantial part of the liabilities of any other entity, at any time following the date of the most recent financial statements referred to in Schedule 5.5.

Section 4.10. Funding Instructions . At least three Business Days prior to the date of such Closing, such Purchaser shall have received written instructions signed by a Responsible Officer on letterhead of the Company confirming the information specified in Section 3 including (a) the name and address of the transferee bank, (b) such transferee bank's ABA number and (c) the account name and number into which the purchase price for the Bonds is to be deposited.

Section 4.11. Proceedings and Documents . All corporate and other proceedings in connection with the transactions contemplated by this Agreement and all documents and instruments incident to such transactions shall be reasonably satisfactory to such Purchaser and its special counsel, and such Purchaser and its special counsel shall have received all such counterpart originals or certified or other copies of such documents as such Purchaser or such special counsel may reasonably request.

Section 4.12. Execution and Delivery and Filing and Recording of the Supplement . Prior to or at the First Closing, the Supplement shall have been duly executed and delivered by the Company, and the Company shall have filed, or delivered for recordation, the Supplement in all locations in Pennsylvania (and financing statements in respect thereof shall have been filed, if necessary) in such manner and in such places as is required by law (and no other instruments are required to be filed) to establish, preserve, perfect and protect the direct security interest and mortgage Lien of the Trust Estate created by the Indenture on all mortgaged and pledged property of the Company referred to in the Indenture as subject to the direct mortgage Lien thereof and the Company shall have delivered satisfactory evidence of such filings, recording or delivery for recording.

Section 4.13. Regulatory Approvals . The issue and sale of the 3.85% Series due 2051 Bonds and the 3.95% Series due 2056 Bonds, or the 3.65% Series due 2042 Bonds and the 3.69% Series due 2044 Bonds, as applicable, shall have been duly authorized by an order of the Pennsylvania Public Utility Commission and such order shall be in full force and effect on the date of the applicable Closing and all appeal periods, if any, applicable to such order shall have expired. The Company shall deliver satisfactory evidence that orders have been obtained approving the issuance of such Bonds from the Pennsylvania Public Utility Commission or that the Pennsylvania Public Utility Commission shall have waived jurisdiction thereof and such approval or waiver shall not be contested or subject to review, or that the Pennsylvania Public Utility Commission does not have jurisdiction.

Section 5. Representations and Warranties of the Company .

The Company represents and warrants to each Purchaser at each Closing that:

Section 5.1. Organization; Power and Authority . The Company is a corporation duly organized, validly existing and subsisting under the laws of the Commonwealth of Pennsylvania, and is duly qualified as a foreign corporation and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure

to be so qualified or in good standing would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The Company has the corporate power and authority to own or hold under lease the properties it purports to own or hold under lease, to transact the business it transacts and proposes to transact, to execute and deliver this Agreement, the Bonds and the Supplement (and had the corporate power and authority to execute and deliver the Indenture at the time of execution and delivery thereof) and to perform the provisions of the Financing Agreements.

Section 5.2. Authorization, Etc . (a) At the First Closing, each Financing Agreement has been duly authorized by all necessary corporate action on the part of the Company, and each Financing Agreement (other than the Supplement and the Bonds) constitutes, and when the Supplement is executed and delivered by the Company and the Trustee and when the 3.85% Series due 2051 Bonds and the 3.95% Series due 2056 Bonds are executed, issued and delivered by the Company, authenticated by the Trustee and paid for by the Purchasers, the Supplement and each 3.85% Series due 2051 Bonds and the 3.95% Series due 2056 Bonds will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its respective terms, except as such enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(b) At the Second Closing, each Financing Agreement (other than the 3.65% Series due 2042 Bonds and the 3.69% Series due 2044 Bonds) remains in full force and effect, and when the 3.65% Series due 2042 Bonds and the 3.69% Series due 2044 Bonds, as applicable, are executed, issued and delivered by the Company, authenticated by the Trustee and paid for by the Purchasers, each 3.65% Series due 2042 Bonds and the 3.69% Series due 2044 Bonds will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its respective terms, except as such enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 5.3. Disclosure . This Agreement and the documents, certificates or other writings delivered to the Purchasers by or on behalf of the Company in connection with the transactions contemplated hereby, including the Confidential Private Placement Memorandum (including the documents incorporated therein by reference) dated October, 2016, and the financial statements listed in Schedule 5.5 (collectively, the *"Disclosure Documents"*), taken as a whole, do not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading in light of the circumstances under which they were made. Since December 31, 2015, there has been no change in the financial condition, operations, business or properties of the Company or any of its Subsidiaries except changes that individually or in the aggregate would not reasonably be expected to have a Material Adverse Effect. There is no fact known to management of the Company that, in the reasonable judgment of management of the Company, could be expected to have a Material Adverse Effect that has not been set forth herein or in the other documents, certificates and other

writings delivered to the Purchaser by the Company specifically for use in connection with the transactions contemplated hereby.

Section 5.4. Organization and Ownership of Shares of Subsidiaries . (a) Schedule 5.4 contains a complete and correct list of the Company's Subsidiaries, showing, as to each Subsidiary, the correct name thereof, the jurisdiction of its organization, and the percentage of shares of each class of its capital stock or similar equity interests outstanding owned by the Company and each other Subsidiary.

(b) All of the outstanding shares of capital stock or similar equity interests of each Subsidiary shown in Schedule 5.4 as being owned by the Company and its Subsidiaries have been validly issued, are fully paid and nonassessable and are owned by the Company or another Subsidiary free and clear of any Lien.

(c) Each Subsidiary identified in Schedule 5.4 is duly incorporated and is validly subsisting as a corporation under the laws of the Commonwealth of Pennsylvania, and is duly qualified as a foreign corporation or other legal entity and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Each such Subsidiary has the corporate or other power and authority to own or hold under lease the properties it purports to own or hold under lease and to transact the business it transacts and proposes to transact.

Section 5.5. Financial Statements; Material Liabilities . The Company has delivered to each Purchaser copies of the financial statements of the Company and its Subsidiaries listed on Schedule 5.5. All of said financial statements (including in each case the related schedules and notes) fairly present in all material respects the consolidated financial position of the Company and its Subsidiaries as of the respective dates specified in such financial statements and the consolidated results of their operations and cash flows for the respective periods so specified and have been prepared in accordance with GAAP consistently applied throughout the periods involved except as set forth in the notes thereto (subject, in the case of any interim financial statements, to normal year-end adjustments). The Company does not have any Material liabilities that are not disclosed on such financial statements or otherwise disclosed in the Disclosure Documents.

Section 5.6. Compliance with Laws, Other Instruments, Etc . The execution, delivery and performance by the Company of each Financing Agreement (including the prior execution and delivery of the Indenture), will not (a) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien, other than the Lien created under the Indenture, in respect of any property of the Company or any Subsidiary under, any indenture, mortgage, deed of trust, loan, purchase or credit agreement, lease, corporate charter, regulations or by-laws, or any other Material agreement or instrument to which the Company or any Subsidiary is bound or by which the Company or any Subsidiary or any of their respective properties may be bound or affected, (b) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or Governmental Authority applicable to the Company or any Subsidiary or (c) violate any provision of any statute or other

rule or regulation of any Governmental Authority applicable to the Company or any Subsidiary, except for any such default, breach, contravention or violation which would not reasonably be expected to have a Material Adverse Effect.

Section 5.7. Governmental Authorizations, Etc . No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in connection with the execution, delivery or performance by the Company of this Agreement, the Bonds and the Supplement, other than approval of the Pennsylvania Public Utility Commission, which has been obtained and is in full force and effect and final and is non-appealable.

Section 5.8. Litigation; Observance of Statutes and Orders . (a) There are no actions, suits, investigations or proceedings pending or, to the knowledge of the Company, threatened against or affecting the Company or any Subsidiary or any property of the Company or any Subsidiary in any court or before any arbitrator of any kind or before or by any Governmental Authority that, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

(b) Neither the Company nor any Subsidiary is (i) in default under any term of any agreement or instrument to which it is a party or by which it is bound, (ii) in violation of any order, judgment, decree or ruling of any court, any arbitrator of any kind or any Governmental Authority naming or referring to the Company or any Subsidiary or (iii) in violation of any applicable law, or, to the knowledge of the Company, any ordinance, rule or regulation of any Governmental Authority (including, without limitation, Environmental Laws the USA Patriot Act or any of the other laws and regulations that are referred to in Section 5.16), which default or violation, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

Section 5.9. Taxes . The Company and its Subsidiaries have filed all income tax returns that are required to have been filed in any jurisdiction, and have paid all taxes shown to be due and payable on such returns and all other taxes and assessments payable by them, to the extent such taxes and assessments have become due and payable and before they have become delinquent, except for any taxes and assessments (i) the amount of which is not individually or in the aggregate Material or (ii) the amount, applicability or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which the Company or a Subsidiary, as the case may be, has established adequate reserves in accordance with GAAP. The charges, accruals, and reserves on the books of the Company and its Subsidiaries in respect of federal, state or other taxes for all fiscal periods are adequate. The Federal income tax liabilities of the Company and its Subsidiaries have been finally determined (whether by reason of completed audits or the statute of limitations having run) for all fiscal years up to and including the fiscal year ended December 31, 2011 and all amounts owing in respect of such audit have been paid.

Section 5.10. Title to Property; Leases . The Company and its Subsidiaries have good and sufficient title to their respective Material properties, including all such properties reflected in the most recent audited balance sheet referred to in Section 5.5 or purported to have been acquired by the Company or any Subsidiary after said date (except as sold or otherwise disposed of in the

ordinary course of business), in each case free and clear of Liens prohibited by this Agreement or the Indenture, except for those defects in title and Liens that, individually or in the aggregate, would not have a Material Adverse Effect. All Material leases are valid and subsisting and are in full force and effect in all material respects.

Section 5.11. Licenses, Permits, Etc . The Company and its Subsidiaries own or possess all licenses, permits, franchises, certificates of convenience and necessity, authorizations, patents, copyrights, proprietary software, service marks, trademarks and trade names, or rights thereto, that are Material, without known conflict with the rights of others, except for those conflicts that, individually or in the aggregate, would not have a Material Adverse Effect.

Section 5.12. Compliance with Employee Benefit Plans . (a) The Company and each ERISA Affiliate have operated and administered each Plan in compliance with all applicable laws except for such instances of noncompliance as have not resulted in and could not reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any ERISA Affiliate has incurred any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans (as defined in section 3 of ERISA), and no event, transaction or condition has occurred or exists that would reasonably be expected to result in the incurrence of any such liability by the Company or any ERISA Affiliate, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate, in either case pursuant to Title I or IV of ERISA or to such penalty or excise tax provisions or to section 401(a)(29) or 412 of the Code or section 4068 of ERISA, other than such liabilities or Liens as would not be individually or in the aggregate Material.

(b) The present value of the aggregate benefit liabilities under each of the Plans subject to section 412 of the Code (other than Multiemployer Plans), determined as of January 1, 2016 based on such Plan's actuarial assumptions as of that date for funding purposes as documented in such Plan's actuarial valuation reports dated September 2016 did not exceed the aggregate current value of the assets of such Plan allocable to such benefit liabilities by more than $5,000,000 in the case of any single Plan and by more than $5,000,000 in the aggregate for all Plans. The term "*benefit liabilities*" has the meaning specified in section 4001 of ERISA and the terms "current value" and "*present value*" have the meaning specified in section 3 of ERISA.

(c) The Company and its ERISA Affiliates have not incurred withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under section 4201 or 4204 of ERISA in respect of Multiemployer Plans that individually or in the aggregate are Material.

(d) The expected postretirement benefit obligation (determined as of the last day of the Company's most recently ended fiscal year in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 715-60, without regard to liabilities attributable to continuation coverage mandated by section 4980B of the Code) of the Company and its Subsidiaries is not Material.

(e) The execution and delivery of this Agreement and the issuance and sale of the Bonds hereunder will not involve any transaction that is subject to the prohibitions of section 406 of ERISA or in connection with which a tax could be imposed pursuant to

section 4975(c)(1)(A)-(D) of the Code. The representation by the Company to each Purchaser in the first sentence of this Section 5.12(e) is made in reliance upon and subject to the accuracy of such Purchaser's representation in Section 6.2 as to the sources of the funds used to pay the purchase price of the Bonds to be purchased by such Purchaser.

(f) The Company and its Subsidiaries do not have any Non-U.S. Plans.

Section 5.13. Private Offering by the Company . Neither the Company nor anyone acting on the Company's behalf has offered the Bonds or any similar securities for sale to, or solicited any offer to buy any of the same from, or otherwise approached or negotiated in respect thereof with, any Person other than the Purchasers and not more than thirty-five (35) other Institutional Investors, each of which has been offered the Bonds in connection with a private sale for investment. Neither the Company nor anyone acting on its behalf has taken, or will take, any action that would subject the issuance or sale of the Bonds to the registration requirements of Section 5 of the Securities Act.

Section 5.14. Use of Proceeds; Margin Regulations . The Company will apply the proceeds of the sale of the Bonds to repay existing indebtedness and for general corporate purposes and in compliance with all laws referenced in Section 5.16. No part of the proceeds from the sale of the Bonds hereunder will be used, directly or indirectly, for the purpose of buying or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System (12 CFR 221), or for the purpose of buying or carrying or trading in any securities under such circumstances as to involve the Company in a violation of Regulation X of said Board (12 CFR 224) or to involve any broker or dealer in a violation of Regulation T of said Board (12 CFR 220). Margin stock does not constitute more than 2% of the value of the consolidated assets of the Company and its Subsidiaries and the Company does not have any present intention that margin stock will constitute more than 2% of the value of such assets. As used in this Section, the terms "margin stock" and "purpose of buying or carrying" shall have the meanings assigned to them in said Regulation U.

Section 5.15. Existing Debt . Except as described therein, Schedule 5.15(a) sets forth a complete and correct list of all outstanding Debt of the Company and its Subsidiaries as of September 30, 2016, since which date except as described therein there has been no Material change in the amounts, interest rates, sinking funds, installment payments or maturities of the Debt of the Company or its Subsidiaries. Neither the Company nor any Subsidiary is in default and no waiver of default is currently in effect, in the payment of any principal or interest on any Debt of the Company or any Subsidiary and no event or condition exists with respect to any Debt of the Company or any Subsidiary, the outstanding principal amount of which exceeds $5,000,000 that would permit (or that with notice or the lapse of time, or both, would permit) one or more Persons to cause such Debt to become due and payable before its stated maturity or before its regularly scheduled dates of payment.

(b) Without limiting the representation in Section 5.6, the Company is not a party to, or otherwise subject to any provision contained in, any instrument evidencing Debt of the Company or any Subsidiary, any agreement relating thereto or any other agreement (including, but not limited to, its charter or other organizational document) which limits the amount of, or otherwise

imposes restrictions on the incurring of, Debt evidenced by the Bonds, except as specifically indicated in Schedule 5.15(b).

Section 5.16. Foreign Assets Control Regulations, Etc . (a) Neither the Company nor any Controlled Entity (i) is a Blocked Person, (ii) has been notified that its name appears or may in the future appear on a State Sanctions List or (iii) is a target of sanctions that have been imposed by the United Nations or the European Union.

(b) Neither the Company nor any Controlled Entity (i) has violated, been found in violation of, or been charged or convicted under, any applicable U.S. Economic Sanctions Laws, Anti-Money Laundering Laws or Anti-Corruption Laws or (ii) to the Company's knowledge, is under investigation by any Governmental Authority for possible violation of any U.S. Economic Sanctions Laws, Anti-Money Laundering Laws or Anti-Corruption Laws.

(c) No part of the proceeds from the sale of the Bonds hereunder:

(i) constitutes or will constitute funds obtained on behalf of any Blocked Person or will otherwise be used by the Company or any Controlled Entity, directly or indirectly, (A) in connection with any investment in, or any transactions or dealings with, any Blocked Person, (B) for any purpose that would cause any Purchaser to be in violation of any U.S. Economic Sanctions Laws or (C) otherwise in violation of any U.S. Economic Sanctions Laws;

(ii) will be used, directly or indirectly, in violation of, or cause any Purchaser to be in violation of, any applicable Anti-Money Laundering Laws; or

(iii) will be used, directly or indirectly, for the purpose of making any improper payments, including bribes, to any Governmental Official or commercial counterparty in order to obtain, retain or direct business or obtain any improper advantage, in each case which would be in violation of, or cause any Purchaser to be in violation of, any applicable Anti-Corruption Laws.

(d) The Company has established procedures and controls which it reasonably believes are adequate (and otherwise comply with applicable law) to ensure that the Company and each Controlled Entity is and will continue to be in compliance with all applicable U.S. Economic Sanctions Laws, Anti-Money Laundering Laws and Anti-Corruption Laws.

Section 5.17. Status under Certain Statutes . Neither the Company nor any Subsidiary is subject to regulation under the Investment Company Act of 1940, as amended, the Public Utility Holding Company Act of 2005, as amended, the ICC Termination Act of 1995, as amended, or subject to rate regulation under the Federal Power Act, as amended.

Section 5.18. Environmental Matters . Neither the Company nor any Subsidiary has knowledge of any claim or has received any notice of any claim, and no proceeding has been instituted of which it has received notice, raising any claim against the Company or any of its Subsidiaries or any of their respective real properties now or formerly owned, leased or operated

by any of them, or other assets, alleging damage to the environment or any violation of any Environmental Laws, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect. Except as otherwise disclosed to the Purchasers in writing:

(a) neither the Company nor any Subsidiary has knowledge of any facts which would give rise to any claim, public or private, for violation of Environmental Laws or damage to the environment emanating from, occurring on or in any way related to real properties or to other assets now or formerly owned, leased or operated by any of them or their use, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect;

(b) neither the Company nor any of its Subsidiaries has stored any Hazardous Materials on real properties now or formerly owned, leased or operated by any of them or has disposed of any Hazardous Materials in each case in a manner contrary to any Environmental Laws and in any manner that could reasonably be expected to result in a Material Adverse Effect; and

(c) all buildings on all real properties now owned, leased or operated by the Company or any of its Subsidiaries are in compliance with applicable Environmental Laws, except where failure to comply could not reasonably be expected to result in a Material Adverse Effect.

Section 5.19. Lien of Indenture . The Indenture (and for avoidance of doubt including the Supplement) constitutes a direct and valid Lien upon the Trust Estate, subject only to the exceptions referred to in the Indenture and Permitted Liens, and will create a similar Lien upon all properties and assets acquired by the Company after the date hereof which are required to be subjected to the Lien of the Indenture, when acquired by the Company, subject only to the exceptions referred to in the Indenture and Permitted Liens, and subject, further, as to real property interests, to the recordation of a supplement to the Indenture describing such after-acquired property; the descriptions of all such properties and assets contained in the granting clauses of the Indenture are correct and adequate for the purposes of the Indenture; the Indenture has been duly recorded as a mortgage and deed of trust of real estate, and any required filings with respect to personal property and fixtures subject to the Lien of the Indenture have been duly made in each place in which such recording or filing is required to protect, preserve and perfect the Lien of the Indenture; and all taxes and recording and filing fees required to be paid with respect to the execution, recording or filing of the Indenture, the filing of financing statements related thereto and similar documents and the issuance of the Bonds have been paid.

Section 5.20. Filings . No action, including any filings, registration or notice, is necessary or advisable in Pennsylvania or any other jurisdictions to ensure the legality, validity and enforceability of the Financing Agreements, except such action as has been previously taken, which action remains in full force and effect. No action, including any filing, registration or notice, is necessary or advisable in Pennsylvania or any other jurisdiction to establish or protect for the benefit of the Trustee and the holders of Bonds, the security interest and Liens purported to be created under the Indenture and the priority and perfection thereof and the other Financing

Agreements, except such action as has been previously taken, which action remains in full force and effect.

Section 6. Representations of the Purchasers .

Section 6.1. Purchase for Investment . Each Purchaser severally represents that it is purchasing the Bonds for its own account or for one or more separate accounts maintained by such Purchaser or for the account of one or more pension or trust funds and not with a view to the distribution thereof, provided that the disposition of such Purchaser's or their property shall at all times be within such Purchaser's or their control. Each Purchaser understands that the Bonds have not been registered under the Securities Act and may be resold only if registered pursuant to the provisions of the Securities Act or if an exemption from registration is available, except under circumstances where neither such registration nor such an exemption is required by law, and that the Company is not required to register the Bonds.

Section 6.2. Source of Funds . Each Purchaser severally represents that at least one of the following statements is an accurate representation as to each source of funds (a *"Source"*) to be used by such Purchaser to pay the purchase price of the Bonds to be purchased by such Purchaser hereunder:

(a) the Source is an "insurance company general account" (as the term is defined in the United States Department of Labor's Prohibited Transaction Exemption (*"PTE"*) 95-60) in respect of which the reserves and liabilities (as defined by the annual statement for life insurance companies approved by the NAIC (the *"NAIC Annual Statement"*)) for the general account contract(s) held by or on behalf of any employee benefit plan together with the amount of the reserves and liabilities for the general account contract(s) held by or on behalf of any other employee benefit plans maintained by the same employer (or affiliate thereof as defined in PTE 95-60) or by the same employee organization in the general account do not exceed 10% of the total reserves and liabilities of the general account (exclusive of separate account liabilities) plus surplus as set forth in the NAIC Annual Statement filed with such Purchaser's state of domicile; or

(b) the Source is a separate account that is maintained solely in connection with such Purchaser's fixed contractual obligations under which the amounts payable, or credited, to any employee benefit plan (or its related trust) that has any interest in such separate account (or to any participant or beneficiary of such plan (including any annuitant)) are not affected in any manner by the investment performance of the separate account; or

(c) the Source is either (i) an insurance company pooled separate account, within the meaning of PTE 90-1 or (ii) a bank collective investment fund, within the meaning of the PTE 91-38 and, except as disclosed by such Purchaser to the Company in writing pursuant to this clause (c), no employee benefit plan or group of plans maintained by the same employer or employee organization beneficially owns more than 10% of all assets allocated to such pooled separate account or collective investment fund; or

(d) the Source constitutes assets of an "investment fund" (within the meaning of Part VI of PTE 84-14 (the *"QPAM Exemption"*)) managed by a "qualified professional asset manager" or "QPAM" (within the meaning of Part VI of the QPAM Exemption), no employee benefit plan's assets that are managed by the QPAM in such investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Part VI(c)(1) of the QPAM Exemption) of such employer or by the same employee organization and managed by such QPAM, represent more than 20% of the total client assets managed by such QPAM, the conditions of Part I(c) and (g) of the QPAM Exemption are satisfied, neither the QPAM nor a person controlling or controlled by the QPAM maintains an ownership interest in the Company that would cause the QPAM and the Company to be "related" within the meaning of Part VI(h) of the QPAM Exemption and (i) the identity of such QPAM and (ii) the names of any employee benefit plans whose assets in the investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Part VI(c)(1) of the QPAM Exemption) of such employer or by the same employee organization, represent 10% or more of the assets of such investment fund, have been disclosed to the Company in writing pursuant to this clause (d); or

(e) the Source constitutes assets of a "plan(s)" (within the meaning of Part IV(h) of PTE 96-23 (the *"INHAM Exemption"*)) managed by an "in-house asset manager" or "INHAM" (within the meaning of Part IV(a) of the INHAM Exemption), the conditions of Part I(a), (g) and (h) of the INHAM Exemption are satisfied, neither the INHAM nor a person controlling or controlled by the INHAM (applying the definition of "control" in Part IV(d)(3) of the INHAM Exemption) owns a 10% or more interest in the Company and (i) the identity of such INHAM and (ii) the name(s) of the employee benefit plan(s) whose assets constitute the Source have been disclosed to the Company in writing pursuant to this clause (e); or

(f) the Source is a governmental plan; or

(g) the Source is one or more employee benefit plans, or a separate account or trust fund comprised of one or more employee benefit plans, each of which has been identified to the Company in writing pursuant to this clause (g); or

(h) the Source does not include assets of any employee benefit plan, other than a plan exempt from the coverage of ERISA.

As used in this Section 6.2, the terms *"employee benefit plan," "governmental plan,"* and *"separate account"* shall have the respective meanings assigned to such terms in section 3 of ERISA.

Section 7. Information as to Company .

Section 7.1. Financial and Business Information . The Company shall deliver to each Purchaser and each holder of Bonds that is an Institutional Investor:

(a) *Quarterly Statements* — within 60 days after the end of each quarterly fiscal period in each fiscal year of the Company (other than the last quarterly fiscal period of each such fiscal year), duplicate copies of:

(i) a consolidated balance sheet of the Company and its Subsidiaries as at the end of such quarter, and

(ii) consolidated statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries, for such quarter and (in the case of the second and third quarters) for the portion of the fiscal year ending with such quarter,

setting forth in each case in comparative form the figures for the corresponding periods in the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP applicable to quarterly financial statements generally, and certified by a Senior Financial Officer as fairly presenting, in all material respects, the financial position of the companies being reported on and their results of operations and cash flows, subject to changes resulting from year-end adjustments, *provided* that the delivery within the time period specified above of the Company's said financial statements, prepared in accordance with the requirements therefor and filed with the Municipal Securities Rulemaking Board on the Electronic Municipal Market Access ("*EMMA*") database shall be deemed to satisfy the requirements of this Section 7.1(a);

(b) *Annual Statements* — within 120 days after the end of each fiscal year of the Company, duplicate copies of:

(i) a consolidated balance sheet of the Company and its Subsidiaries, as at the end of such year, and

(ii) consolidated statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries for such year,

setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP, and accompanied by an opinion thereon (without a "going concern" or similar qualification or exception and without any qualification or exception as to the scope of the audit on which such opinion is based) of independent public accountants of recognized national standing, which opinion shall state that such financial statements present fairly, in all material respects, the financial position of the companies being reported upon and their results of operations and cash flows and have been prepared in conformity with GAAP, and that the examination of such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards, and that such audit provides a reasonable basis for such opinion in the circumstances, *provided* that the delivery within the time period specified above of the

Company's said financial statements, prepared in accordance with the requirements therefor and containing the above-described audit opinion and filed with the Municipal Securities Rulemaking Board on the EMMA database shall be deemed to satisfy the requirements of this Section 7.1(b);

(c) *SEC and Other Reports* — promptly upon their becoming available, one copy of (i) each financial statement, report, notice, or proxy statement sent by the Company or any Subsidiary to its public securities holders generally, and (ii) each regular or periodic report, each registration statement that shall have become effective (without exhibits except as expressly requested by such Purchaser or holder), and each final prospectus and all amendments thereto filed by the Company or any Subsidiary with the SEC, *provided* that the delivery within the time period specified above of the Company's said financial statements, prepared in accordance with the requirements therefor and filed with the Municipal Securities Rulemaking Board on the EMMA database shall be deemed to satisfy the requirements of this Section 7.1(c);

(d) *Notice of Default or Event of Default* — promptly, and in any event within five days after a Responsible Officer becomes aware of the existence of any Default or Event of Default, a written notice specifying the nature and period of existence thereof and what action the Company is taking or proposes to take with respect thereto;

(e) *Employee Benefits Matters* — promptly, and in any event within five days after a Responsible Officer becomes aware of any of the following, a written notice setting forth the nature thereof and the action, if any, that the Company or an ERISA Affiliate proposes to take with respect thereto:

(i) with respect to any Plan (other than any Multiemployer Plan) that is subject to Title IV of ERISA, any reportable event, as defined in section 4043(c) of ERISA and the regulations thereunder, for which notice thereof has not been waived pursuant to such regulations as in effect on the date hereof and on the date of the Second Closing; or

(ii) the taking by the PBGC of steps to institute, or the threatening by the PBGC of the institution of, proceedings under section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any such Plan, or the receipt by the Company or any ERISA Affiliate of a notice from a Multiemployer Plan that such action has been taken by the PBGC with respect to such Multiemployer Plan; or

(iii) any event, transaction or condition that could result in the incurrence of any liability by the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or such penalty or excise tax provisions, if such liability or Lien,

taken together with any other such liabilities or Liens then existing, would reasonably be expected to have a Material Adverse Effect;

(f) *Notices from Governmental Authority* — promptly, and in any event within 30 days of receipt thereof, copies of any notice to the Company or any Subsidiary from any federal or state Governmental Authority relating to any order, ruling, statute or other law or regulation that could reasonably be expected to have a Material Adverse Effect;

(g) *Requested Information* — with reasonable promptness, following the receipt by the Company of a written request by such holder of Bonds, the names and contact information of holders of the outstanding bonds issued under the Indenture (i.e. the bonds in which the Company or a trustee is required to keep in a register and that are not publicly traded) of which the Company has knowledge and the principal amount of the outstanding bonds issued under the Indenture owed to each holder (unless disclosure of such names, contact information or holdings is prohibited by law), and such data and information relating to the business, operations, affairs, financial condition, assets or properties of the Company or any of its Subsidiaries or relating to the ability of the Company to perform its obligations under any Financing Agreement as from time to time may be reasonably requested by such Purchaser or holder of Bonds; and

(h) *Deliveries to Trustee* — promptly, and in any event within five days after delivery to the Trustee, a copy of any deliveries made by the Company to the Trustee, including without limitation the annual report delivered to the Trustee pursuant to Article VIII, Section 12 of the Indenture.

Section 7.2 Officer's Certificate . Each set of financial statements delivered to a Purchaser or holder of Bonds pursuant to Section 7.1(a) or Section 7.1(b) shall be accompanied by a certificate of a Senior Financial Officer (which, in the case of financial statements filed with the Municipal Securities Rulemaking Board on the EMMA database, shall be by separate concurrent delivery of such certificate to each holder of Bonds) setting forth a statement that such Senior Financial Officer has reviewed the relevant terms hereof and of the Indenture and has made, or caused to be made, under his or her supervision, a review of the transactions and conditions of the Company and its Subsidiaries from the beginning of the quarterly or annual period covered by the statements then being furnished to the date of the certificate and that such review shall not have disclosed the existence during such period of any condition or event that constitutes a Default or an Event of Default or, if any such condition or event existed or exists (including, without limitation, any such event or condition resulting from the failure of the Company or any Subsidiary to comply with any Environmental Law), specifying the nature and period of existence thereof and what action the Company shall have taken or proposes to take with respect thereto.

Section 7.3. Visitation . The Company shall permit the representatives of each Purchaser and each holder of Bonds that is an Institutional Investor:

(a) *No Default* — if no Default or Event of Default then exists, at the expense of such Purchaser or holder and upon reasonable prior notice to the Company, to visit the principal executive office of the Company, to discuss the affairs, finances and accounts of the Company and its Subsidiaries with the Company's officers, and, with the consent of the Company (which consent will not be unreasonably withheld), to visit the other offices and properties of the Company and each Subsidiary, all at such reasonable times during normal business hours and as often as may be reasonably requested in writing; and

(b) *Default* — if a Default or Event of Default then exists, at the expense of the Company to visit and inspect any of the offices or properties of the Company or any Subsidiary, to examine all their respective books of account, records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers and independent public accountants (and by this provision the Company authorizes said accountants to discuss the affairs, finances and accounts of the Company and its Subsidiaries), all at such reasonable times and as often as may be requested.

Section 8. Purchase of Bonds

The Company will not and will not permit any Affiliate to purchase, redeem, prepay or otherwise acquire, directly or indirectly, any of the outstanding Bonds except (a) upon the payment or prepayment of the Bonds in accordance with the terms of this Agreement and the Bonds or (b) pursuant to a written offer to purchase any outstanding Bonds made by the Company or an Affiliate pro rata to the holders of the Bonds upon the same terms and conditions. Any such offer shall provide each holder with sufficient information to enable it to make an informed decision with respect to such offer, and shall remain open for at least 15 Business Days. If the holders of more than 10% of the principal amount of the Bonds then outstanding accept such offer, the Company shall promptly notify the remaining holders of such fact and the expiration date for the acceptance by holders of Bonds of such offer shall be extended by the number of days necessary to give each such remaining holder at least 10 Business Days from its receipt of such notice to accept such offer. The Company will promptly cancel all Bonds acquired by it or any Affiliate pursuant to any payment, prepayment or purchase of Bonds pursuant to any provision of this Agreement and no Bonds may be issued in substitution or exchange for any such Bonds.

Section 9. Affirmative Covenants .

The Company covenants that from the date of this Agreement until the Second Closing and thereafter, so long as any of the Bonds are outstanding:

Section 9.1. Compliance with Law . Without limiting Section 10.4, the Company will, and will cause each of its Subsidiaries to, comply with all laws, ordinances or governmental rules or regulations to which each of them is subject, including, without limitation, ERISA, Environmental Laws, the USA Patriot Act and the other laws and regulations that are referred to in Section 5.16, and will obtain and maintain in effect all licenses, certificates, permits, franchises and other governmental authorizations necessary to the ownership of their respective

properties or to the conduct of their respective businesses, in each case to the extent necessary to ensure that non-compliance with such laws, ordinances or governmental rules or regulations or failures to obtain or maintain in effect such licenses, certificates, permits, franchises and other governmental authorizations could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 9.2. Insurance . The Company will cause each of its Subsidiaries to maintain, with financially sound and reputable insurers, insurance with respect to their respective properties and businesses against such casualties and contingencies, of such types, on such terms and in such amounts (including deductibles, co-insurance and self-insurance, if adequate reserves are maintained with respect thereto) as is customary in the case of entities of established reputations engaged in the same or a similar business and similarly situated.

Section 9.3. Maintenance of Properties . The Company will cause each of its Subsidiaries to maintain and keep, or cause to be maintained and kept, their respective properties in good repair, working order and condition (other than ordinary wear and tear), so that the business carried on in connection therewith may be properly conducted at all times, *provided* that this Section 9.3 shall not prevent any Subsidiary from discontinuing the operation and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business and the Company and such Subsidiary have concluded that such discontinuance would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 9.4. Payment of Taxes . The Company will cause each of its Subsidiaries to file all income tax or similar tax returns required to be filed in any jurisdiction and to pay and discharge all taxes shown to be due and payable on such returns and all other taxes, assessments, governmental charges, or levies payable by any of them, to the extent the same have become due and payable and before they have become delinquent, provided that any Subsidiary does not need to pay any such tax, assessment, charge or levy if (a) the amount, applicability or validity thereof is contested by the Company or such Subsidiary on a timely basis in good faith and in appropriate proceedings, and the Subsidiary has established adequate reserves therefor in accordance with GAAP on the books of such Subsidiary or (b) the nonpayment of all such taxes, assessments, charges and levies in the aggregate would not reasonably be expected to have a Material Adverse Effect.

Section 9.5. Corporate Existence, Etc . The Company will at all times preserve and keep in full force and effect the corporate existence of each of its Subsidiaries (unless merged into the Company or a wholly-owned Subsidiary) and all rights and franchises of its Subsidiaries unless, in the good faith judgment of the Company or such Subsidiary, the termination of or failure to preserve and keep in full force and effect such corporate existence, right or franchise would not, individually or in the aggregate, have a Material Adverse Effect.

Section 9.6. Books and Records . The Company will, and will cause each of its Subsidiaries to, maintain proper books of record and account in conformity with GAAP and all applicable requirements of any Governmental Authority having legal or regulatory jurisdiction over the Company or such Subsidiary.

Section 10. Negative Covenants .

The Company covenants that from the date of this Agreement until the Second Closing and thereafter, so long as any of the Bonds are outstanding:

Section 10.1. Transactions with Affiliates . The Company will not and will not permit any Subsidiary to enter into directly or indirectly any Material transaction or Material group of related transactions (including without limitation the purchase, lease, sale or exchange of properties of any kind or the rendering of any service) with any Affiliate (other than the Company or another Subsidiary), except pursuant to the reasonable requirements of the Company's or such Subsidiary's business.

Section 10.2. Merger, Consolidation, Etc . The Company will not consolidate with or merge with any other Person or convey, transfer or lease all or substantially all of its assets in a single transaction or series of transactions to any Person unless:

(a) the successor formed by such consolidation or the survivor of such merger or the Person that acquires by conveyance, transfer or lease all or substantially all of the assets of the Company as an entirety, as the case may be, shall be a solvent corporation or limited liability company organized and existing under the laws of the United States or any State thereof (including the District of Columbia), and, if the Company is not such corporation or limited liability company, such corporation or limited liability company shall have executed and delivered to each holder of any Bonds its assumption of the due and punctual performance and observance of each covenant and condition of the Financing Agreements (pursuant to such agreements and instruments as shall be reasonably satisfactory to the Required Holders), and the Company shall have caused to be delivered to each holder of Bonds an opinion of nationally recognized independent counsel, to the effect that all agreements or instruments effecting such assumption are enforceable in accordance with their terms and comply with the terms hereof; and

(b) immediately before and immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing.

No such conveyance, transfer or lease of substantially all of the assets of the Company shall have the effect of releasing the Company or any successor corporation or limited liability company that shall theretofore have become such in the manner prescribed in this Section 10.2 from its liability under the Financing Agreements.

Section 10.3. Line of Business . The Company will not engage in any business if, as a result, the general nature of the business in which the Company and its Subsidiaries, taken as a whole, would then be engaged would be substantially changed from the general nature of the business in which the Company and its Subsidiaries, taken as whole, is engaged on the date of this Agreement.

Section 10.4. Economic Sanctions, Etc. . The Company will not, and will not permit any Controlled Entity to (a) become (including by virtue of being owned or controlled by a Blocked

Person), own or control a Blocked Person or (b) directly or indirectly have any investment in or engage in any dealing or transaction (including any investment, dealing or transaction involving the proceeds of the Bonds) with any Person if such investment, dealing or transaction (i) would cause any holder or any affiliate of such holder to be in violation of, or subject to sanctions under, any law or regulation applicable to such holder, or (ii) is prohibited by or subject to sanctions under any U.S. Economic Sanctions Laws.

Section 11. Payments on Bonds .

Section 11.1. Payment by Wire Transfer . So long as any Purchaser or its nominee shall be the holder of any Bond, and notwithstanding anything contained in the Indenture or in such Bond to the contrary, the Company will pay, or cause to be paid by a paying agent, a trustee or other similar party, all sums becoming due on such Bond for principal, Make-Whole Amount or premium, if any, and interest by the method and at the address specified for such purpose below such Purchaser's name in Schedule A, or by such other method or at such other address as such Purchaser shall have from time to time specified to the Company in writing for such purpose, without the presentation or surrender of such Bond or the making of any notation thereon, except that upon written request of the Company or any paying agent made concurrently with or reasonably promptly after payment or prepayment in full of any Bond, such Purchaser shall surrender such Bond for cancellation, reasonably promptly after any such request, to the Company at its principal executive office or at the place of payment most recently designated by the Company pursuant to Article II of the Indenture. Prior to any sale or other disposition of any Bond held by a Purchaser or its nominee, such Purchaser will, at its election, either endorse thereon the amount of principal paid thereon and the last date to which interest has been paid thereon or surrender such Bond to the Company in exchange for a new Bond or Bonds pursuant to Article II of the Indenture. The Company will afford the benefits of this Section 11.1 to any Institutional Investor that is the direct or indirect transferee of any Bond purchased by a Purchaser under this Agreement and that has made the same agreement relating to such Bond as the Purchasers have made in this Section 11.1.

Section 12. Registration; Exchange; Expenses, Etc .

Section 12.1. Registration of Bonds . The Company shall cause the Trustee to keep a register for the registration and registration of transfers of Bonds in accordance with Article XIII, Section 9 of the Indenture.

Section 12.2. Transaction Expenses . Whether or not the transactions contemplated hereby are consummated, the Company will pay all reasonable costs and expenses (including reasonable attorneys' fees of a special counsel and, if reasonably required by the Required Holders, local or other counsel) incurred by the Purchasers and each other holder of a Bond in connection with such transactions and in connection with any amendments, waivers or consents under or in respect of any Financing Agreement (whether or not such amendment, waiver or consent becomes effective), including, without limitation: (a) the costs and expenses incurred in enforcing or defending (or determining whether or how to enforce or defend) any rights under any Financing Agreement or in responding to any subpoena or other legal process or informal investigative demand issued in connection with any Financing Agreement, or by reason of being

a Purchaser or holder of any Bond, (b) the costs and expenses, including financial advisors' fees, incurred in connection with the insolvency or bankruptcy of the Company or any Subsidiary or in connection with any work-out or restructuring of the transactions contemplated by any Financing Agreement and (c) the costs and expenses incurred in connection with the initial filing of any Financing Agreement and all related documents and financial information with the SVO, provided that such costs and expenses under this clause (c) shall not exceed $6,000 for the Bonds. The Company will pay, and will save each Purchaser and each other holder of a Bond harmless from, all claims in respect of any fees, costs or expenses if any, of brokers and finders (other than those, if any, retained by a Purchaser or other holder in connection with its purchase of the Bonds).

Section 12.3. Survival . The obligations of the Company under this Section 12 will survive the payment or transfer of any Bond, the enforcement, amendment or waiver of any provision of any Financing Agreement, and the termination of any Financing Agreement.

Section 13. Survival of Representations and Warranties; Entire Agreement .

All representations and warranties contained herein shall survive the execution and delivery of this Agreement, the purchase or transfer by any Purchaser of any Bond or portion thereof or interest therein and the payment of any Bond, and may be relied upon by any subsequent holder of a Bond, regardless of any investigation made at any time by or on behalf of such Purchaser or any other holder of a Bond. All statements contained in any certificate or other instrument delivered by or on behalf of the Company pursuant to this Agreement shall be deemed representations and warranties of the Company under this Agreement. Subject to the preceding sentence, the Financing Agreements embody the entire agreement and understanding between each Purchaser and the Company and supersede all prior agreements and understandings relating to the subject matter hereof.

Section 14. Amendment and Waiver .

Section 14.1. Requirements . This Agreement and the Bonds may be amended, and the observance of any term hereof or of the Bonds may be waived (either retroactively or prospectively), with (and only with) the written consent of the Company and the Required Holders, except that (i) no amendment or waiver of any of the provisions of Section 1, 2, 3, 4, 5, 6 or 19 hereof, or any defined term, will be effective as to any holder of Bonds unless consented to by such holder of Bonds in writing, and (ii) no such amendment or waiver may, without the written consent of all of the Purchasers and all of the holders of Bonds at the time outstanding affected thereby, (A) subject to the provisions of the Indenture relating to acceleration, change the amount or time of any prepayment or payment of principal of, or reduce the rate or change the time of payment or method of computation of interest (if such change results in a decrease in the interest rate) or of the Make-Whole Amount on, the Bonds, (B) change the percentage of the principal amount of the Bonds the Purchasers or holders of which are required to consent to any such amendment or waiver, or (C) amend any of Sections 8, 14 or 18.

Section 14.2. Solicitation of Holders of Bonds .

(a) *Solicitation.* The Company will provide each Purchaser and holder of the Bonds (irrespective of the amount of Bonds then owned by it) with sufficient information, sufficiently far in advance of the date a decision is required, to enable such Purchaser or holder to make an informed and considered decision with respect to any proposed amendment, waiver or consent in respect of any of the provisions hereof or of the Bonds. The Company will deliver executed or true and correct copies of each amendment, waiver or consent effected pursuant to the provisions of this Section 14 to each Purchaser and each holder of outstanding Bonds promptly following the date on which it is executed and delivered by, or receives the consent or approval of, the requisite Purchasers or holders of Bonds.

(b) *Payment.* The Company will not directly or indirectly pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise (other than legal fees or other related expenses), or grant any security or provide other credit support, to any Purchaser or holder of Bonds as consideration for or as an inducement to the entering into by any Purchaser or holder of Bonds of any waiver or amendment of any of the terms and provisions hereof or of the Bonds unless such remuneration is concurrently paid, or security is concurrently granted or other credit support concurrently provided, on the same terms, ratably to each Purchaser and each holder of Bonds then outstanding even if such Purchaser or holder did not consent to such waiver or amendment.

(c) *Consent in Contemplation of Transfer*. Any consent made pursuant to this Section 14 by a holder of Bonds that has transferred or has agreed to transfer its Bonds to (i) the Company, (ii) any Subsidiary or any other Affiliate or (iii) any other Person in connection with, or in anticipation of, such other Person acquiring, making a tender offer for or merging with the Company and/or any of its Affiliates, and has provided or has agreed to provide such written consent as a condition to such transfer shall be void and of no force or effect except solely as to such holder, and any amendments effected or waivers granted or to be effected or granted that would not have been or would not be so effected or granted but for such consent (and the consents of all other holders of Bonds that were acquired under the same or similar conditions) shall be void and of no force or effect except solely as to such holder.

Section 14.3. Binding Effect, Etc . Any amendment or waiver consented to as provided in this Section 14 applies equally to all Purchasers and holders of Bonds and is binding upon them and upon each future Purchaser and holder of any Bond and upon the Company without regard to whether such Bond has been marked to indicate such amendment or waiver. No such amendment or waiver will extend to or affect any obligation, covenant, agreement, Default or Event of Default not expressly amended or waived or impair any right consequent thereon. No course of dealing between the Company and Purchaser and any holder of any Bond nor any delay in exercising any rights hereunder or under any Bond shall operate as a waiver of any rights of any Purchaser or any holder of such Bond.

Section 14.4. Bonds Held by Company, Etc . Solely for the purpose of determining whether the holders of the requisite percentage of the aggregate principal amount of Bonds then outstanding approved or consented to any amendment, waiver or consent to be given under this Agreement or the Bonds, or have directed the taking of any action provided herein or in the Bonds to be taken upon the direction of the holders of a specified percentage of the aggregate

principal amount of Bonds then outstanding, Bonds directly or indirectly owned by the Company or any of its Affiliates shall be deemed not to be outstanding.

Section 15. Notices .

All notices and communications provided for hereunder shall be in writing and sent (a) by telecopy if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (b) by registered or certified mail with return receipt requested (postage prepaid), or (c) by a recognized overnight delivery service (with charges prepaid). Any such notice must be sent:

(i) if to any Purchaser or its nominee, to such Purchaser or nominee at the address specified for such communications in Schedule A, or at such other address as such Purchaser or nominee shall have specified to the Company in writing,

(ii) if to any other holder of any Bond, to such holder at such address as such other holder shall have specified to the Company in writing, or

(iii) if to the Company, to the Company at its address set forth at the beginning hereof to the attention of 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010-3489 , or at such other address as the Company shall have specified to the holder of each Bond in writing.

Notices under this Section 15 will be deemed given only when actually received.

Section 16. Indemnification .

The Company hereby agrees to indemnify and hold the Purchasers harmless from, against and in respect of any and all loss, liability and expense (including reasonable attorneys' fees) arising from any misrepresentation or nonfulfillment of any undertaking on the part of the Company under this Agreement. The indemnification obligations of the Company under this Section 16 shall survive the execution and delivery of this Agreement, the delivery of the Bonds to the Purchasers and the consummation of the transactions contemplated herein.

Section 17. Reproduction of Documents .

This Agreement and all documents relating thereto, including, without limitation, (a) consents, waivers and modifications that may hereafter be executed, (b) documents received by any Purchaser at either Closing (except the Bonds themselves), and (c) financial statements, certificates and other information previously or hereafter furnished to any Purchaser, may be reproduced by such Purchaser by any photographic, photostatic, electronic, digital, or other similar process and such Purchaser may destroy any original document so reproduced. The Company agrees and stipulates that, to the extent permitted by applicable law, any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was

made by such Purchaser in the regular course of business) and any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence. This Section 17 shall not prohibit the Company or any other holder of Bonds from contesting any such reproduction to the same extent that it could contest the original, or from introducing evidence to demonstrate the inaccuracy of any such reproduction.

Section 18. Confidential Information .

For the purposes of this Section 18, *"Confidential Information"* means information delivered to any Purchaser by or on behalf of the Company or any Subsidiary in connection with the transactions contemplated by or otherwise pursuant to this Agreement that is proprietary in nature and that was clearly marked or labeled or otherwise adequately identified when received by such Purchaser as being confidential information of the Company or such Subsidiary, provided that such term does not include information that (a) was publicly known or otherwise known to such Purchaser prior to the time of such disclosure, (b) subsequently becomes publicly known through no act or omission by such Purchaser or any person acting on such Purchaser's behalf, (c) otherwise becomes known to such Purchaser other than through disclosure by the Company or any Subsidiary or (d) constitutes financial statements delivered to such Purchaser under Section 7.1 of this Agreement or under the Indenture that are otherwise publicly available. Each Purchaser will maintain the confidentiality of such Confidential Information in accordance with procedures adopted by such Purchaser in good faith to protect confidential information of third parties delivered to such Purchaser, provided that such Purchaser may deliver or disclose Confidential Information to (i) its directors, trustees, officers, employees, agents, attorneys and affiliates (to the extent such disclosure reasonably relates to the administration of the investment represented by Bonds), (ii) its financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this Section 18, (iii) the Trustee or any other holder of any Bond, (iv) any Institutional Investor to which it sells or offers to sell such Bond or any part thereof or any participation therein (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 18), (v) any Person from which it offers to purchase any security of the Company (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 18), (vi) any federal or state or provincial regulatory authority having jurisdiction over such Purchaser, (vii) the NAIC or the SVO or, in each case, any similar organization, or any nationally recognized rating agency that requires access to information about such Purchaser's investment portfolio, or (viii) any other Person to which such delivery or disclosure may be necessary or appropriate (w) to effect compliance with any law, rule, regulation or order applicable to such Purchaser, (x) in response to any subpoena or other legal process, (y) in connection with any litigation to which such Purchaser is a party or (z) if an Event of Default has occurred and is continuing, to the extent such Purchaser may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under any Financing Agreement. Each holder of a Bond, by its acceptance of a Bond, will be deemed to have agreed to be bound by and to be entitled to the benefits of this Section 18 as though it were a party to this Agreement. On reasonable request by the Company in connection with the delivery to any holder of a Bond of information required to be delivered to such holder under this Agreement or requested by such holder (other than a holder that is a party to this Agreement or

its nominee), such holder will enter into an agreement with the Company embodying the provisions of this Section 18.

In the event that as a condition to receiving access to information relating to the Company or its Subsidiaries in connection with the transactions contemplated by or otherwise pursuant to this Agreement, any Purchaser or holder of a Bond is required to agree to a confidentiality undertaking (whether through EMMA, another secure website, a secure virtual workspace or otherwise) which is different from this Section 18, this Section 18 shall not be amended thereby and, as between such Purchaser or such holder and the Company, this Section 18 shall supersede any such other confidentiality undertaking.

Section 19. Miscellaneous .

Section 19.1. Successors and Assigns . All covenants and other agreements contained in this Agreement by or on behalf of any of the parties hereto bind and inure to the benefit of their respective successors and assigns (including, without limitation, any subsequent holder of a Bond) whether so expressed or not, except that, subject to Section 10.2, the Company may not assign or otherwise transfer any of its rights or obligations hereunder or under the Bonds without the prior written consent of each holder. Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto and their respective successors and assigns permitted hereby) any legal or equitable right, remedy or claim under or by reason of this Agreement.

Section 19.2. Accounting Terms . All accounting terms used herein which are not expressly defined in this Agreement have the meanings respectively given to them in accordance with GAAP. Except as otherwise specifically provided herein, (a) all computations made pursuant to this Agreement shall be made in accordance with GAAP, and (b) all financial statements shall be prepared in accordance with GAAP. For purposes of determining compliance with the financial covenants contained in the Financing Agreements, if any, any election by the Company to measure Debt using fair value (as permitted by Financial Accounting Standards Board Accounting Standards Codification Topic No. 825-10-25 – *Fair Value Option,* International Accounting Standard 39 – *Financial Instruments: Recognition and Measurement* or any similar accounting standard) shall be disregarded and such determination shall be made as if such election had not been made and such Debt shall be valued at not less than 100% of the principal amount thereof.

Section 19.3. Severability . Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

Section 19.4. Construction, Etc . Each covenant contained herein shall be construed (absent express provision to the contrary) as being independent of each other covenant contained herein, so that compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with any other covenant. Where any provision

herein refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person.

For the avoidance of doubt, all Schedules and Exhibits attached to this Agreement shall be deemed to be a part hereof.

Section 19.5. Counterparts . This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the parties hereto.

Section 19.6. Governing Law . This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the Commonwealth of Pennsylvania excluding choice-of-law principles of the law of such State that would permit the application of the laws of a jurisdiction other than such State.

Section 19.7. Jurisdiction and Process; Waiver of Jury Trial . (a) The Company irrevocably submits to the non-exclusive jurisdiction of any Pennsylvania State or federal court sitting in Philadelphia, Pennsylvania, over any suit, action or proceeding arising out of or relating to this Agreement or the Bonds. To the fullest extent permitted by applicable law, the Company irrevocably waives and agrees not to assert, by way of motion, as a defense or otherwise, any claim that it is not subject to the jurisdiction of any such court, any objection that it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any such court and any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

(b) The Company consents to process being served by or on behalf of any holder of Bonds in any suit, action or proceeding of the nature referred to in Section 19.7(a) by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, return receipt requested, to it at its address specified in Section 15 or at such other address of which such holder shall then have been notified pursuant to said Section. The Company agrees that such service upon receipt (i) shall be deemed in every respect effective service of process upon it in any such suit, action or proceeding and (ii) shall, to the fullest extent permitted by applicable law, be taken and held to be valid personal service upon and personal delivery to it. Notices hereunder shall be conclusively presumed received as evidenced by a delivery receipt furnished by the United States Postal Service or any reputable commercial delivery service.

(c) Nothing in this Section 19.7 shall affect the right of any holder of a Bond to serve process in any manner permitted by law, or limit any right that the holders of any of the Bonds may have to bring proceedings against the Company in the courts of any appropriate jurisdiction or to enforce in any lawful manner a judgment obtained in one jurisdiction in any other jurisdiction.

(d) The parties hereto hereby waive trial by jury in any action brought on or with respect to this Agreement, the Bonds or any other document executed in connection herewith or therewith.

Section 19.8. Payments Due on Non-Business Days . Anything in this Agreement or the Bonds to the contrary notwithstanding, any payment of principal of or Make-Whole Amount or interest on any Bond that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day; provided that if the maturity date of any Bond is a date other than a Business Day, the payment otherwise due on such maturity date shall be made on the next succeeding Business Day and shall include the additional days elapsed in the computation of interest payable on such next succeeding Business Day.

* * * * *

If you are in agreement with the foregoing, please sign the form of agreement on a counterpart of this Bond Purchase Agreement and return it to the Company, whereupon this Agreement shall become a binding agreement between you and the Company.

Very truly yours,

Aqua Pennsylvania, Inc.

By: \s\ Stan F. Szczygiel
Name: Stan F. Szczygiel
Its: Vice President and Treasurer

Accepted as of the date first written above.

[Variation]

Teachers Insurance and Annuity Association of America

By: \s\ Matthew W. Smith
Name: Matthew W. Smith
Title: Director

New York Life Insurance Company
New York Life Insurance and Annuity Corporation

By: \s\ Jessica L. Maizel
Name: Jessica L. Maizel
Title: Corporate Vice President, Senior Director

John Hancock Life Insurance Company

By: \s\ Pradeep Killamsetty
Name: Pradeep Killamsetty
Title: Managing Director

American Equity Life Insurance Company

By: \s\ Jeffrey A. Fossell
Name: Jeffrey A. Fossell
Title: Authorized Signatory

Genworth Life and Annuity Insurance Company

By: \s\ Stephen DeMotto
Name: Stephen DeMotto
Title: Investment Officer

Phoenix Life Insurance Company
PHL Variable Insurance Company

By: \s\ Nelson Correa
Name: Nelson Correa
Title: Senior Managing Director

American United Life Insurance Company
The State Life Insurance Company
Pioneer Mutual Life Insurance Company

By: \s\ David Weisenburger
Name: David Weisenburger
Title: VP, Fixed Income Securities

Information Relating to Purchasers

Intentionally Left Blank

Schedule A
(to Bond Purchase Agreement)

Defined Terms

As used herein, the following terms have the respective meanings set forth below or set forth in the Section hereof following such term:

"3.85% Series due 2051 Bonds" is defined in Section 1.

"3.95% Series due 2056 Bonds" is defined in Section 1.

"3.65% Series due 2042 Bonds" is defined in Section 1.

"3.69% Series due 2044 Bonds" is defined in Section 1.

"Affiliate" means, at any time, and with respect to any Person, any other Person that at such time directly or indirectly through one or more intermediaries Controls, or is Controlled by, or is under common Control with, such first Person. As used in this definition, "Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. Unless the context otherwise clearly requires, any reference to an "Affiliate" is a reference to an Affiliate of the Company.

"Agreement" means this Bond Purchase Agreement, including all Schedules and Exhibits attached to this Agreement.

"Anti-Corruption Laws" means any law or regulation in a U.S. or any non-U.S. jurisdiction regarding bribery or any other corrupt activity, including the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act 2010.

"Anti-Money Laundering Laws" means any law or regulation in a U.S. or any non-U.S. jurisdiction regarding money laundering, drug trafficking, terrorist-related activities or other money laundering predicate crimes, including the Currency and Foreign Transactions Reporting Act of 1970 (otherwise known as the Bank Secrecy Act) and the USA Patriot Act.

"Blocked Person" means (a) a Person whose name appears on the list of Specially Designated Nationals and Blocked Persons published by OFAC, (b) a Person, entity, organization, country or regime that is blocked or a target of sanctions that have been imposed under U.S. Economic Sanctions Laws or (c) a Person that is an agent, department or instrumentality of, or is otherwise beneficially owned by, controlled by or acting on behalf of, directly or indirectly, any Person, entity, organization, country or regime described in clause (a) or (b).

"Bonds" is defined in Section 1.

"Business Day" means for the purposes of any provision of this Agreement, any day other than a Saturday, a Sunday or a day on which commercial banks in New York, New York or Philadelphia, Pennsylvania are required or authorized to be closed.

"Capital Lease" means, at any time, a lease with respect to which the lessee is required concurrently to recognize the acquisition of an asset and the incurrence of a liability in accordance with GAAP.

"Capital Lease Obligation" means, with respect to any Person and a Capital Lease, the amount of the obligation of such Person as the lessee under such Capital Lease which would, in accordance with GAAP, appear as a liability on a balance sheet of such Person.

"Closing" is defined in Section 3.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations promulgated thereunder from time to time.

"Company" means Aqua Pennsylvania, Inc., a corporation existing under the laws of the Commonwealth of Pennsylvania.

"*Controlled Entity*" means any of the Subsidiaries of the Company and any of their or the Company's respective Controlled Affiliates. As used in this definition, "Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"Debt" means, with respect to any Person, without duplication,

(a) its liabilities for borrowed money;

(b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable and other accrued liabilities arising in the ordinary course of business but including, without limitation, all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property);

(c) its Capital Lease Obligations;

(d) all liabilities for borrowed money secured by any Lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities);

(e) all non-contingent liabilities in respect of reimbursement agreements or similar agreements in respect of letters of credit or instruments serving a similar function issued or accepted for its account by banks and other financial institutions;

(f) Swaps of such Person; and

(g) Guaranties of such Person with respect to liabilities of a type described in any of clauses (a) through (f) hereof.

Debt of any Person shall include all obligations of such Person of the character described in clauses (a) through (g) to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is deemed to be extinguished under GAAP.

"Default" means an event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

"Disclosure Documents" is defined in Section 5.3.

"*EMMA*" is defined in Section 7.1(a).

"Environmental Laws" means any and all Federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including but not limited to those related to Hazardous Materials.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that is treated as a single employer together with the Company under section 414 of the Code.

"Event of Default" is an "event of default" as defined in the Indenture.

"Financing Agreements" means this Agreement, the Indenture (including without limitation the Supplement), and the Bonds.

"First Closing" is defined in Section 3.

"*GAAP*" means generally accepted accounting principles as in effect from time to time in the United States of America.

"Governmental Authority" means:

(a) the government of

(i) the United States of America or any State or other political subdivision thereof, or

(ii) any other jurisdiction in which the Company or any Subsidiary conducts all or any part of its business, or which asserts jurisdiction over any properties of the Company or any Subsidiary, or

(b) any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government.

"Governmental Official" means any governmental official or employee, employee of any government-owned or government-controlled entity, political party, any official of a political party, candidate for political office, official of any public international organization or anyone else acting in an official capacity.

"Guaranty" means, with respect to any Person, any obligation (except the endorsement in the ordinary course of business of negotiable instruments for deposit or collection) of such Person guaranteeing or in effect guaranteeing any Debt, dividend or other obligation of any other Person in any manner, whether directly or indirectly, including (without limitation) obligations incurred through an agreement, contingent or otherwise, by such Person:

(a) to purchase such Debt or obligation or any property constituting security therefor primarily for the purpose of assuring the owner of such Debt or obligation of the ability of any other Person to make payment of the Debt or obligation;

(b) to advance or supply funds (i) for the purchase or payment of such Debt or obligation, or (ii) to maintain any working capital or other balance sheet condition or any income statement condition of any other Person or otherwise to advance or make available funds for the purchase or payment of such Debt or obligation;

(c) to lease properties or to purchase properties or services primarily for the purpose of assuring the owner of such Debt or obligation of the ability of any other Person to make payment of the Debt or obligation; or

(d) otherwise to assure the owner of such Debt or obligation against loss in respect thereof.

In any computation of the Debt or other liabilities of the obligor under any Guaranty, the Debt or other obligations that are the subject of such Guaranty shall be assumed to be direct obligations of such obligor, *provided* that the amount of such Debt outstanding for purposes of this Agreement shall not exceed the maximum amount of Debt that is the subject of such Guaranty.

"Hazardous Material" means any and all pollutants, toxic or hazardous wastes or other substances that might pose a hazard to health and safety, the removal of which may be required or the generation, manufacture, refining, production, processing, treatment, storage, handling, transportation, transfer, use, disposal, release, discharge, spillage, seepage or filtration of which is or shall be restricted, prohibited or penalized by any applicable law including, but not limited to, asbestos, urea formaldehyde foam insulation, polychlorinated biphenyls, petroleum,

petroleum products, lead based paint, radon gas or similar restricted, prohibited or penalized substances.

"holder" is defined in the Indenture.

"Indenture" is defined in Section 1.

"Institutional Investor" means (a) any Purchaser of a Bond, (b) any holder of a Bond holding (together with one or more of its affiliates) more than 5% of the aggregate principal amount of the Bonds then outstanding, (c) any bank, trust company, savings and loan association or other financial institution, any pension plan, any investment company, any insurance company, any broker or dealer, or any other similar financial institution or entity, regardless of legal form, and (d) any Related Fund of any holder of any Bond.

"Lien" means, with respect to any Person, any mortgage, lien, pledge, charge, security interest or other encumbrance, or any interest or title of any vendor, lessor, lender or other secured party to or of such Person under any conditional sale or other title retention agreement or Capital Lease, upon or with respect to any property or asset of such Person (including in the case of stock, stockholder agreements, voting trust agreements and all similar arrangements).

"Make-Whole Amount" is defined in the Supplement.

"Material" means material in relation to the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries taken as a whole.

"Material Adverse Effect" means a material adverse effect on (a) the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries taken as a whole, (b) the ability of the Company to perform its obligations under this Agreement, the Bonds or the Indenture or (c) the validity or enforceability of any Financing Agreement.

"Multiemployer Plan" means any Plan that is a "multiemployer plan" (as such term is defined in section 4001(a)(3) of ERISA).

"NAIC" means the National Association of Insurance Commissioners or any successor thereto.

"Non-U.S. Plan" means any plan, fund or other similar program that (a) is established or maintained outside the United States of America by the Company or any Subsidiary primarily for the benefit of employees of the Company or one or more Subsidiaries residing outside the United States of America, which plan, fund or other similar program provides, or results in, retirement income, a deferral of income in contemplation of retirement or payments to be made upon termination of employment, and (b) is not subject to ERISA or the Code.

"OFAC" means the Office of Foreign Assets Control of the United States Department of the Treasury.

"*OFAC Sanctions Program*" means any economic or trade sanction that OFAC is responsible for administering and enforcing. A list of OFAC Sanctions Programs may be found at http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx.

"Officer's Certificate" means a certificate of a Senior Financial Officer or of any other officer of the Company whose responsibilities extend to the subject matter of such certificate.

"Original Indenture" is defined in Section 1.

"PBGC" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA or any successor thereto.

"Permitted Liens" shall have the meaning assigned to such term in the Indenture.

"Person" means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization, business entity or Governmental Authority.

"Plan" means an "employee benefit plan" (as defined in section 3(2) of ERISA) subject to Title I of ERISA that is or, within the preceding five years, has been established or maintained, or to which contributions are or, within the preceding five years, have been made or required to be made, by the Company or any ERISA Affiliate or with respect to which the Company or any ERISA Affiliate may have any liability.

"property" or *"properties"* means, unless otherwise specifically limited, real or personal property of any kind, tangible or intangible, choate or inchoate.

"PTE" is defined in Section 6.2(a).

"Purchaser" is defined in the first paragraph of this Agreement.

"Related Fund" means, with respect to any holder of any Bond, any fund or entity that (i) invests in Securities or bank loans, and (ii) is advised or managed by such holder, the same investment advisor as such holder or by an affiliate of such holder or such investment advisor.

"Required Holders" means (i) at any time, prior to the Second Closing, (x) the Purchasers of 3.65% Series due 2042 Bonds and the 3.69% Series due 2044 Bonds, and (y) the holders of at least 51% in principal amount of the Bonds at the time outstanding (exclusive of Bonds then owned by the Company or any of its Affiliates); and (ii) at any time, on or after the Second Closing, the holders of at least 51% in principal amount of the Bonds at the time outstanding (exclusive of Bonds then owned by the Company or any of its Affiliates) *provided*, that if the Second Closing does not occur on January 31, 2017, then the Required Holders shall only include the Purchasers of 3.65% Series due 2042 Bonds and the 3.69% Series due 2044 Bonds from the date of the First Closing until February 15, 2017 or such later date as such Purchasers and the Company have agreed to in writing.

"Responsible Officer" means any Senior Financial Officer and any other officer of the Company with responsibility for the administration of the relevant portion of this Agreement.

"SEC" means the Securities and Exchange Commission of the United States, or any successor thereto.

"Second Closing" is defined in Section 3.

"Securities" or *"Security"* shall have the meaning specified in Section 2(a)(1) of the Securities Act.

"Securities Act" means the Securities Act of 1933, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"Senior Financial Officer" means the chief financial officer, principal accounting officer, treasurer or comptroller of the Company.

"Source" is defined in Section 6.2.

"State Sanctions List" means a list that is adopted by any state Governmental Authority within the United States of America pertaining to Persons that engage in investment or other commercial activities in Iran or any other country that is a target of economic sanctions imposed under U.S. Economic Sanctions Laws.

"Subsidiary" means, as to any Person, any other Person in which such first Person or one or more of its Subsidiaries or such first Person and one or more of its Subsidiaries owns sufficient equity or voting interests to enable it or them (as a group) ordinarily, in the absence of contingencies, to elect a majority of the directors (or Persons performing similar functions) of such second Person, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such first Person or one or more of its Subsidiaries or such first Person and one or more of its Subsidiaries (unless such partnership or joint venture can and does ordinarily take major business actions without the prior approval of such Person or one or more of its Subsidiaries). Unless the context otherwise clearly requires, any reference to a "Subsidiary" is a reference to a Subsidiary of the Company.

"Supplement" is defined in Section 1.

"SVO" means the Securities Valuation Office of the NAIC or any successor to such Office.

"Swaps" means, with respect to any Person, payment obligations with respect to interest rate swaps, currency swaps and similar obligations obligating such Person to make payments, whether periodically or upon the happening of a contingency. For the purposes of this Agreement, the amount of the obligation under any Swap shall be the amount determined in respect thereof as of the end of the then most recently ended fiscal quarter of such Person, based on the assumption that such Swap had terminated at the end of such fiscal quarter, and in making

such determination, if any agreement relating to such Swap provides for the netting of amounts payable by and to such Person thereunder or if any such agreement provides for the simultaneous payment of amounts by and to such Person, then in each such case, the amount of such obligation shall be the net amount so determined.

"Trust Estate" is defined in the Indenture.

"Trustee" is defined in Section 1.

"UCC" means, the Uniform Commercial Code as enacted and in effect from time to time in the state whose laws are treated as applying to the Trust Estate.

"USA Patriot Act" means United States Public Law 107-56, Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT ACT) Act of 2001, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"U.S. Economic Sanctions Laws" means those laws, executive orders, enabling legislation or regulations administered and enforced by the United States pursuant to which economic sanctions have been imposed on any Person, entity, organization, country or regime, including the Trading with the Enemy Act, the International Emergency Economic Powers Act, the Iran Sanctions Act, the Sudan Accountability and Divestment Act, each as amended from time to time, and any other OFAC Sanctions Program.

Aqua Pennsylvania, Inc.
Subsidiaries of the Company,
Ownership of Subsidiary Stock

Company Name	State of Incorporation	% of Ownership (Direct & Indirect)
Aqua Pennsylvania, Inc.	Pennsylvania	100%
1. Aqua Pennsylvania Wastewater, Inc.	Pennsylvania	100%
2. Honesdale Consolidated Water Company	Pennsylvania	100%
3. Superior Water Company	Pennsylvania	100%

Schedule 5.4
(to Bond Purchase Agreement)

Financial Statements

1. Aqua Pennsylvania, Inc. Consolidated Financial Statements as of and for the years ended December 31, 2015, 2014 and 2013 (audited)

2. Aqua Pennsylvania, Inc. Report for Quarter Ended September 30, 2016

Schedule 5.5
(to Bond Purchase Agreement)

Schedule 5.15(a)

Aqua Pennsylvania and Subsidiaries
Schedule 5.15(a) - Existing Debt
as of 9/30/16

		Outstanding Balance
Unsecured Note	5.50%	$ 2,132,180
Unsecured Note	5.64%	5,466,000
Unsecured Note	5.64%	5,461,000
Unsecured Note	5.95%	10,000,000
Unsecured Note	5.95%	10,000,000
Unsecured Note	5.95%	10,000,000
Unsecured Note	5.95%	10,000,000
Bank Loan	1.92%	50,000,000
Bank Loan	1.98%	50,000,000
Total Unsecured Notes		**153,059,180**
Tax Exempt	5.00%	23,915,000
Tax Exempt	5.00%	23,915,000
Tax Exempt-Bond Premium		1,541,486
Tax Exempt	5.25%	24,830,000
Tax Exempt	5.25%	24,830,000
Tax Exempt-Bond Premium		253,504
Tax Exempt	6.25%	9,000,000
Tax Exempt	6.75%	13,000,000
Tax Exempt-Bond Discount		-20,400
Tax Exempt	5.00%	58,000,000
Tax Exempt-Bond Discount		-1,540,822
Tax Exempt	5.00%	62,165,000
Tax Exempt-Bond Premium		474,377
Tax Exempt	4.75%	12,520,000
Tax Exempt-Bond Discount		-232,174
Tax Exempt	5.00%	25,910,000
Tax Exempt	5.00%	19,270,000
Tax Exempt-Bond Discount		-100,977
Tax Exempt	4.50%	15,000,000
Tax Exempt-Bond Discount		-501,600
Tax Exempt	5.00%	81,205,000
Tax Exempt-Bond Premium		2,125,921
Total Tax Exempt Bonds		**395,559,315**
PennVest	2.711%	502,199
PennVest	2.547%	959,270
PennVest	2.547%	321,754
PennVest	2.690%	886,406
PennVest	2.547%	1,734,717

Existing Debt

Schedule 5.15(a)
(to Bond Purchase Agreement)

		Outstanding Balance
PennVest	1.274%	570,113
PennVest	1.510%	2,317,045
PennVest	1.000%	1,027,620
PennVest	4.047%	236,918
PennVest	3.631%	46,933
PennVest	4.047%	109,900
PennVest	3.552%	1,214,602
PennVest	1.349%	118,248
PennVest	3.631%	127,701
PennVest	4.050%	371,935
PennVest	3.030%	403,626
PennVest	3.460%	4,480,425
PennVest	3.468%	363,612
PennVest	2.774%	1,542,761
PennVest	4.047%	199,936
PennVest	3.790%	860,216
PennVest	3.810%	463,686
PennVest	3.430%	552,379
PennVest	2.774%	776,853
PennVest	3.470%	2,959,502
PennVest	3.468%	171,277
PennVest	3.195%	1,373,787
PennVest	2.556%	717,502
PennVest	2.554%	869,866
PennVest	2.547%	430,804
PennVest	3.046%	1,003,915
PennVest	2.547%	1,131,600
PennVest	2.547%	815,369
PennVest	2.547%	950,834
PennVest	3.143%	1,564,475
PennVest	1.274%	757,544
PennVest	1.000%	7,110,810
PennVest	3.330%	279,944
PennVest	2.730%	2,332,398
PennVest	2.668%	1,126,203
PennVest	2.547%	901,794
PennVest	1.000%	344,658
PennVest	2.774%	168,838
PennVest	2.774%	146,789
PennVest	3.052%	595,702
PennVest	3.468%	3,768,712
PennVest	2.774%	965,740
PennVest	1.156%	285,215
PennVest	2.774%	1,173,305
PennVest	3.365%	1,391,658

		Outstanding Balance
PennVest	2.547%	1,409,064
Total PennVest		**54,936,162**
FMB	5.17%	7,000,000
FMB	5.751%	15,000,000
FMB	5.751%	5,000,000
FMB	5.98%	3,000,000
FMB	6.06%	15,000,000
FMB	6.06%	5,000,000
FMB	7.72%	15,000,000
FMB	9.17%	2,000,000
FMB	9.29%	12,000,000
FMB	9.97%	5,000,000
FMB	3.79%	40,000,000
FMB	3.80%	20,000,000
FMB	3.85%	20,000,000
FMB	3.94%	25,000,000
FMB	4.61%	25,000,000
FMB	4.62%	25,000,000
FMB	3.64%	25,000,000
FMB	4.01%	15,000,000
FMB	4.06%	13,000,000
FMB	4.11%	12,000,000
FMB	3.77%	65,000,000
FMB	3.82%	20,000,000
FMB	3.85%	25,000,000
FMB	4.16%	60,000,000
FMB	4.18%	20,000,000
FMB	4.20%	20,000,000
Total First Mortgage Bonds		**514,000,000**
PennVest - Aqua PA WW	1.00%	499,399
PennVest - Aqua PA WW	1.16%	1,084,473
PennVest - Aqua PA WW	1.00%	635,177
PennVest - Aqua PA WW	1.00%	200,371
PennVest - Aqua PA WW	1.35%	87,346
PennVest - Aqua PA WW	2.77%	209,238
Total PennVest LWWW		**2,716,003**
Total Long Term Debt		**$ 1,120,270,660**

	Outstanding Balance
PNC Revolver	**47,000,000**
PNC Uncommitted line	**0**
Total Debt Aqua Pennsylvania	**$ 1,167,270,660**

Schedule 5.15(b)

Aqua Pennsylvania, Inc. and Subsidiaries
Debt Issuance Limitations

Indenture of Mortgage dated as of January 1, 1941 of Aqua Pennsylvania, Inc. as Supplemented and Amended

$100 million Amended and Restated Credit Agreement among Aqua Pennsylvania, Inc. and PNC Bank, National Association as Agent dated as of November 17, 2016

Aqua Pennsylvania, Inc. $40,000,000 5.95% Senior Notes dated March 31, 2006

Aqua Pennsylvania, Inc. $10,927,000 5.64% Senior Notes dated September 29, 2006

Aqua Pennsylvania, Inc. $2,132,180 5.50% Senior Notes dated May 15, 2007

- $50 million Term Loan Agreement among Aqua Pennsylvania, Inc. and PNC Bank,
- National Association as Agent and Dated as of September 29, 2014
-
- $50 million Term Loan Agreement among Aqua Pennsylvania, Inc. and PNC Bank,
- National Association as Agent and Dated as of May 6, 2015

Form of Supplement

[See Attached]

Exhibit A
(to Bond Purchase Agreement)

Form of Opinion of General Counsel
to the Company

[See attached]

Exhibit 4.4(a)
(to Bond Purchase Agreement)

Form of Opinion of Special Counsel
to the Company

[See attached]

Exhibit 4.4(b)
(to Bond Purchase Agreement)

Form of Opinion of Special Counsel
to the Purchasers

[Delivered to Purchasers only]

Exhibit 4.4(c)
(to Bond Purchase Agreement)

Exhibit 10.2.4

AMENDED AND RESTATED CREDIT AGREEMENT

among

AQUA PENNSYLVANIA, INC.

and

THE BANKS PARTY HERETO

and

PNC BANK, NATIONAL ASSOCIATION
as Agent

Dated as of November 17, 2016

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SCHEDULES

EXHIBITS

AMENDED AND RESTATED CREDIT AGREEMENT

THIS AMENDED AND RESTATED CREDIT AGREEMENT (this "Agreement") dated as of November 17, 2016, by and among **AQUA PENNSYLVANIA, INC.**, a Pennsylvania corporation (the "Borrower"), the several banks and other financial institutions from time to time parties to this Agreement (the "Banks"), and **PNC BANK, NATIONAL ASSOCIATION**, a national banking association, as administrative agent (in such capacity, the "Agent").

BACKGROUND

A. The Banks have made available to the Borrower a revolving credit facility in the maximum principal amount of $100,000,000 on the terms and conditions contained in that certain Credit Agreement dated as of November 30, 2010 (as amended and in effect immediately prior to the date hereof, the "Existing Credit Agreement") by and among the Borrower, the Banks and the Agent.

B. The Borrower, the Banks and the Agent desire to amend and to restate the terms of the Existing Credit Agreement, all upon the terms and conditions set forth herein.

NOW, THEREFORE, the parties hereto, in consideration of their mutual covenants and agreements hereinafter set forth and intending to be legally bound hereby, covenant and agree that the Existing Credit Agreement is amended and restated in its entirety as follows:

SECTION 1. DEFINITIONS

1.1 Defined Terms. As used in this Agreement, the following terms shall have the following meanings:

"Adjusted Revolving Credit Commitment Percentage": with respect to any non-Defaulting Bank, the quotient (expressed as a percentage) of such Bank's aggregate Commitment divided by the aggregate Commitments of all non-Defaulting Banks.

"Affiliate": any Person (other than a Subsidiary, or an officer, director or employee of the Borrower who would not be an Affiliate but for such Person's status as an officer, director and/or employee) which, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, the Borrower, and any member, director, officer or employee of any such Person or any Subsidiary of the Borrower. For purposes of this definition, "control" shall mean the power, directly or indirectly, either to (i) vote 5% or more of the securities having ordinary voting power for the election of directors of such Person or (ii) direct or in effect cause the direction of the management and policies of such Person whether by contract or otherwise.

"Anti-Terrorism Laws": any Laws applicable to any Covered Entity or any other party hereto relating to terrorism, trade sanctions programs and embargoes, import/export licensing, money laundering, bribery or anti-corruption, and any regulation, order, or

directive promulgated, issued or enforced pursuant to such Laws (including, without limitation, any of the foregoing promulgated by the U.S. Department of the Treasury's Office of Foreign Assets Control, the U.S. Department of State, the United Nations Security Council, the European Union and member states, Her Majesty's Treasury of the United Kingdom, the Hong Kong Monetary Authority, or other relevant sanctions authority), all as amended, supplemented or replaced from time to time.

"Assignment and Acceptance": an assignment and acceptance entered into by a Bank and an assignee, and acknowledged by the Agent, in the form of Exhibit C or such other form as shall be approved by the Agent.

"Bail-In Action": the exercise of any Write-Down and Conversion Powers by the applicable EEA Resolution Authority in respect of any liability of an EEA Financial Institution.

"Bail-In Legislation": with respect to any EEA Member Country implementing Article 55 of Directive 2014/59/EU of the European Parliament and of the Council of the European Union, the implementing law for such EEA Member Country from time to time which is described in the EU Bail-In Legislation Schedule.

"Base Rate": for any day, a rate per annum (rounded upwards, if necessary, to the next 1/100th of 1%) equal to the highest of (a) the Prime Rate in effect on such day, (b) the Federal Funds Open Rate in effect on such day plus fifty (50) basis points (0.5%) and (c) the Daily LIBOR Rate plus one hundred (100) basis points (1.0%) provided, however, if the Base Rate determined as provided above would be less than zero, then such rate shall be deemed to be zero. If for any reason the Agent shall have determined (which determination shall be conclusive absent manifest error) that it is unable to ascertain the Federal Funds Open Rate or the Daily LIBOR Rate for any reason, including the inability or failure of the Agent to obtain sufficient quotations in accordance with the definition of such term, the Base Rate shall be determined without regard to clause (b) or (c) as the case may be, of the first sentence of this definition until the circumstances giving rise to such inability no longer exist. Any change in the Base Rate due to a change in the Prime Rate, the Federal Funds Open Rate or the Daily LIBOR Rate shall be effective on the effective date of such change in the Prime Rate, the Federal Funds Open Rate or the Daily LIBOR Rate, as the case may be.

"Base Rate Borrowing": a Borrowing comprised of Base Rate Loans.

"Base Rate Loan": any Revolving Credit Loan bearing interest at a rate determined by reference to the Base Rate.

"Borrower": as defined in the heading of this Agreement.

"Borrowing": a Swing Line Loan made by the Swing Line Bank or each group of Revolving Credit Loans of a single Type made by the Banks on a single date and, in the case of Eurodollar Loans, as to which a single Interest Period is in effect.

"Borrowing Request": a request made pursuant to Section 2.1(c) in the form of Exhibit A.

"Business Day": a day other than a Saturday, Sunday or other day on which commercial banks in Philadelphia, Pennsylvania are authorized or required by law to close; provided, however, that, when used in connection with a Eurodollar Loan, the term "Business Day" shall also exclude any day on which banks are not open for dealings in dollar deposits in the London Interbank Market.

"Capital Lease": at any time, a lease with respect to which the lessee is required to recognize the acquisition of an asset and the incurrence of a liability in accordance with GAAP.

"Capital Stock": any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all equivalent ownership interests in a Person (other than a corporation) and any and all warrants or options to purchase any of the foregoing.

"Change in Law": the occurrence, after the date of this Agreement, of any of the following: (a) the adoption or taking effect of any Law, (b) any change in any Law or in the administration, interpretation, implementation or application thereof by any Governmental Authority or (c) the making or issuance of any request, rule, guideline or directive (whether or not having the force of Law) by any Governmental Authority; provided that notwithstanding anything herein to the contrary, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, regulations, guidelines, interpretations or directives thereunder or issued in connection therewith (whether or not having the force of Law) and (y) all requests, rules, regulations, guidelines, interpretations or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities (whether or not having the force of Law), in each case pursuant to Basel III, shall in each case be deemed to be a Change in Law regardless of the date enacted, adopted, issued, promulgated or implemented.

"Closing": as defined in Section 4.3.

"Closing Date": as defined in Section 4.3.

"Code": the Internal Revenue Code of 1986, as amended from time to time.

"Commitment": as to any Bank, the obligation of such Bank to make Loans to the Borrower hereunder in an aggregate principal amount at any one time outstanding not to exceed the amount set forth opposite such Bank's name on Schedule I or in the Assignment and Acceptance pursuant to which such Bank becomes a party to this Agreement, as the same may be permanently terminated, reduced and extended from time to time pursuant to the provisions of Section 2.9 or changed by subsequent assignments pursuant to subsection 9.6(b).

"Commitment Percentage": as to any Bank at any time, the proportion (expressed as a percentage) that such Bank's Commitment bears to the Total Commitment (or, at any time after the Commitments shall have expired or been terminated, the percentage which the amount of such Bank's Loans constitutes of the aggregate amount of the Loans of the Banks then outstanding).

"Commonly Controlled Entity": an entity, whether or not incorporated, which is under common control with the Borrower within the meaning of Section 4001 of ERISA or is part of a group which includes the Borrower and which is treated as a single employer under Section 414 of the Code.

"Consolidated Assets": at any time, the amount at which all assets (including, without duplication, the capitalized value of any leasehold interest under any Capital Lease) of the Borrower would be reflected on a consolidated balance sheet of the Borrower at such time.

"Consolidated EBIT": for any period, Consolidated Net Income for such period, plus the amount of income taxes and interest expense deducted from earnings in determining such Consolidated Net Income.

"Consolidated EBITDA": for any period, Consolidated Net Income for such period, plus the amount of income taxes, interest expense, depreciation and amortization deducted from earnings in determining such Consolidated Net Income.

"Consolidated Funded Debt": at any time, all Debt of the Borrower determined on a consolidated basis consisting of, without duplication (a) borrowed money Debt, including without limitation capitalized lease obligations;(b) reimbursement obligations in respect of letters of credit, bank guarantees and the like; and (c) Debt in the nature of a Contingent Obligation, whether or not required to be reflected on a balance sheet of the Borrower in accordance with GAAP.

"Consolidated Interest Expense": for any period, the amount of cash interest expense deducted from earnings of the Borrower in determining Consolidated Net Income for such period in accordance with GAAP.

"Consolidated Net Income": for any fiscal period, net earnings (or loss) after income and other taxes computed on the basis of income of the Borrower for such period determined on a consolidated basis in accordance with GAAP, but excluding:

(a) the amount of any extraordinary items included in such calculation of net earnings (or loss);

(b) any gain or loss resulting from the write-up or write-off of fixed assets;

(c) earnings of any Subsidiary accrued prior to the date it became a Subsidiary;

(d) earnings of any Person, substantially all assets of which have been acquired in any manner, realized by such Person prior to the date of such acquisition; and

(e) any gain arising from the acquisition of any Securities of the Borrower or any Subsidiary thereof.

"Consolidated Shareholders' Equity": at a particular date, the net book value of the shareholders' equity of the Borrower as would be shown on a consolidated balance sheet at such time determined in accordance with GAAP.

"Contingent Obligation": with respect to any Person (for the purpose of this definition, the "Obligor") any obligation (except the endorsement in the ordinary course of business of instruments for deposit or collection) of the Obligor guaranteeing or in effect guaranteeing any indebtedness of any other Person (for the purpose of this definition, the "Primary Obligor") in any manner, whether directly or indirectly, including (without limitation) indebtedness incurred through an agreement, contingent or otherwise, by the Obligor:

(a) to purchase such indebtedness of the Primary Obligor or any Property or assets constituting security therefor;

(b) to advance or supply funds

(i) for the purpose of payment of such indebtedness (except to the extent such indebtedness otherwise appears on Borrower's balance sheet as indebtedness), or

(ii) to maintain working capital or other balance sheet condition or any income statement condition of the Primary Obligor or otherwise to advance or make available funds for the purchase or payment of such indebtedness or obligation; or

(c) to lease Property or to purchase Securities or other Property or services primarily for the purpose of assuring the owner of such indebtedness or obligation of the ability of the Primary Obligor to make payment of the indebtedness or obligation.

For purposes of computing the amount of any Contingent Obligation, in connection with any computation of indebtedness or other liability, it shall be assumed that, without duplication, the indebtedness or other liabilities of the Primary Obligor that are the subject of such Contingent Obligation are direct obligations of the issuer of such Obligation.

"Contractual Obligation": as to any Person, any provision of any Security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

"Covered Entity": (a) the Borrower, each of the Borrower's Subsidiaries and all Guarantors and (b) each Person that, directly or indirectly, is in control of a Person described in clause (a) above. For purposes of this definition, control of a Person shall mean the direct or indirect (x) ownership of, or power to vote, 25% or more of the issued and outstanding equity interests having ordinary voting power for the election of directors of such Person or other Persons performing similar functions for such Person, or (y) power to direct or cause the direction of the management and policies of such Person whether by ownership of equity interests, contract or otherwise.

"Daily LIBOR Rate" shall mean, for any day, the rate per annum determined by the Agent by dividing (the resulting quotient rounded upwards, if necessary, to the nearest 1/100th of 1%) (x) the Published Rate by (y) a number equal to 1.00 minus the Eurocurrency Reserve Requirements. The Published Rate shall be adjusted as of each Business Day based on changes in the Published Rate or the Eurocurrency Reserve Requirements without notice to the Borrower, and shall be applicable from the effective date of any such change. Notwithstanding the foregoing, if the Daily LIBOR Rate as determined above would be less than zero, such rate shall be deemed to be zero for purposes of this Agreement.

"Debt": with respect to any Person, at any time, without duplication, all of (i) its liabilities for borrowed money, (ii) liabilities secured by any Lien existing on property owned by such Person (whether or not such liabilities have been assumed), (iii) its liabilities in respect to Capital Leases; (iv) its liabilities under Contingent Obligations; and (v) all other obligations which are required by GAAP to be shown as liabilities on its balance sheet but excluding (x) deferred taxes and other deferred or long-term liabilities and other amounts not in respect of borrowed money and (y) the aggregate amount of accounts receivable sold, factored or otherwise transferred for value without recourse (other than for breach of representations).

"Default": any of the events specified in Section 7, whether or not any requirement for the giving of notice, the lapse of time, or both, or any other condition precedent therein set forth, has been satisfied.

"Defaulting Bank": any Bank, as determined by the Agent, that has (a) failed to fund any portion of its Revolving Credit Loans or participations in Swing Line Loans within three Business Days of the date required to be funded by it hereunder, (b) notified the Borrower, the Agent, the Swing Line Bank or any Bank in writing that it does not intend to comply with any of its funding obligations under this Agreement or has made a public statement to the effect that it does not intend to comply with its funding obligations under this Agreement or under other agreements in which it commits to extend credit, (c) failed, within three Business Days after request by the Agent, to confirm that it will comply with the terms of this Agreement relating to its obligations to fund prospective Revolving Credit Loans or participations in Swing Line Loans, (d) otherwise failed to pay over to the Agent or any other Bank any other amount required to be paid by it hereunder within three Business Days of the date when due, unless the subject of a good faith dispute, or (e) (i) become or is insolvent or has a parent company that has become or is insolvent, (ii) become the subject of a Bail-In Action, or (iii)

become the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee or custodian appointed for it, or has taken any action in furtherance of, or indicating its consent to, approval of or acquiescence in any such proceeding or appointment or has a parent company that has become the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee or custodian appointed for it, or has taken any action in furtherance of, or indicating its consent to, approval of or acquiescence in any such proceeding or appointment (it being understood that a Defaulting Bank shall cease to be a Defaulting Bank if the Borrower, the Agent and the Swing Line Bank shall each agree that such Defaulting Bank has adequately remedied all matters that caused such Bank to be a Defaulting Bank).

"Distribution": in respect of any corporation, (a) dividends, distributions or other payments on account of any capital stock of the corporation (except distributions in common stock of such corporation); (b) the redemption or acquisition of such stock or of warrants, rights or other options to purchase such stock (except when solely in exchange for common stock of such corporation); and (c) any payment on account of, or the setting apart of any assets for a sinking or other analogous fund for, the purchase, redemption, defeasance, retirement or other acquisition of any share of any class of capital stock of such corporation or any warrants or options to purchase any such stock.

"Dollars" and "$": dollars in lawful currency of the United States of America.

"EEA Financial Institution": (i) any credit institution or investment firm established in any EEA Member Country which is subject to the supervision of an EEA Resolution Authority, (ii) any entity established in an EEA Member Country which is a parent of an institution described in clause (i) of this definition, or (iii) any financial institution established in an EEA Member Country which is a subsidiary of an institution described in clauses (i) or (ii) of this definition and is subject to consolidated supervision with its parent.

"EEA Member Country": any of the member states of the European Union, Iceland, Liechtenstein and Norway.

"EEA Resolution Authority" any public administrative authority or any person entrusted with public administrative authority of any EEA Member Country (including any delegee) having responsibility for the resolution of any EEA Financial Institution.

"Environmental Laws": any and all applicable foreign, Federal, state, local or municipal laws, rules, orders, regulations, statutes, ordinances, codes, decrees or binding requirements of any Governmental Authority, or binding Requirement of Law (including common law) regulating, relating to or imposing liability or standards of conduct concerning protection of the environment or public health, remediation of environmental conditions, or damages arising from such conditions, as now or may at any time hereafter be in effect.

"Equity to Capital Ratio": at the date of determination, the ratio of Consolidated Shareholders' Equity to the sum of (i) Consolidated Funded Debt and (ii) Consolidated Shareholders' Equity.

"ERISA": the Employee Retirement Income Security Act of 1974, as amended from time to time.

"EU Bail-In Legislation Schedule": the EU Bail-In Legislation Schedule published by the Loan Market Association (or any successor person), as in effect from time to time.

"Eurocurrency Reserve Requirements": for any day as applied to a Eurodollar Loan, the aggregate (without duplication) of the rates (expressed as a decimal fraction) of reserve requirements in effect on such day (including, without limitation, basic, supplemental, marginal and emergency reserves under any regulations of the Board of Governors of the Federal Reserve System or other Governmental Authority having jurisdiction with respect thereto) dealing with reserve requirements prescribed for eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of such Board) maintained by a member bank of such System.

"Eurodollar Rate": with respect to the Loans comprising any Eurodollar Borrowing for any Interest Period, the interest rate per annum determined by the Agent by dividing (the resulting quotient rounded upwards, if necessary, to the nearest 1/100th of 1% per annum) (a) the rate which appears on the Bloomberg Page BBAM1 (or on such other substitute Bloomberg page that displays rates at which U.S. dollar deposits are offered by leading banks in the London interbank deposit market), or the rate which is quoted by another source selected by the Agent as an authorized information vendor for the purpose of displaying rates at which U.S. dollar deposits are offered by leading banks in the London interbank deposit market (for purposes of this definition, an "Alternate Source"), at approximately 11:00 a.m., London time, two (2) Business Days prior to the commencement of such Interest Period as the London interbank offered rate for U.S. Dollars for an amount comparable to such Eurodollar Borrowing and having a borrowing date and a maturity comparable to such Interest Period (or if there shall at any time, for any reason, no longer exist a Bloomberg Page BBAM1 (or any substitute page) or any Alternate Source, a comparable replacement rate determined by the Agent at such time (which determination shall be conclusive absent manifest error)), by (b) a number equal to 1.00 minus the Eurocurrency Reserve Requirements; provided, however, that if the Eurodollar Rate determined as provided above would be less than zero, such rate shall be deemed to be zero for purposes of this Agreement.

The Eurodollar Rate shall be adjusted with respect to any Eurodollar Borrowing that is outstanding on the effective date of any change in the Eurocurrency Reserve Requirements as of such effective date. The Agent shall give prompt notice to the Borrower of the Eurodollar Rate as determined or adjusted in accordance herewith, which determination shall be conclusive absent manifest error.

"Eurodollar Borrowing": a Borrowing comprised of Eurodollar Loans.

"Eurodollar Loan": any Revolving Credit Loan bearing interest at a rate determined by reference to the Eurodollar Rate in accordance with the provisions of Section 2.

"Event of Default": any of the events specified in Section 7, provided that any requirement for the giving of notice, the lapse of time, or both, or any other condition, has been satisfied.

"Excluded Taxes": as defined in subsection 2.12(a).

"Existing Credit Agreement": as defined in the Background to this Agreement.

"Exposure": as to any Bank at any date, an amount equal to the sum of (a) the aggregate principal amount of all Loans made by such Bank then outstanding and (b) the principal amount of such Bank's pro rata share of Swing Line Loans then outstanding based on its Commitment Percentage.

"FATCA": Sections 1471 through 1474 of the Code, as of the date of this Agreement (or any amended or successor version that is substantially comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof and any agreement entered into pursuant to Section 1471(b)(1) of the Code.

"Federal Funds Effective Rate": for any day, the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for the day of such transactions received by the Agent from three Federal funds brokers of recognized standing selected by it.

"Federal Funds Open Rate" for any day shall mean the rate per annum which is the daily federal funds open rate as quoted by ICAP North America, Inc. (or any successor) as set forth on the Bloomberg Screen BTMM for that day opposite the caption "OPEN" (or on such other substitute Bloomberg Screen that displays such rate), or as set forth on such other recognized electronic source used for the purpose of displaying such rate as selected by the Agent (an "Alternate Federal Funds Source") (or if such rate for such day does not appear on the Bloomberg Screen BTMM (or any substitute screen) or on any Alternate Federal Funds Source, or if there shall at any time, for any reason, no longer exist a Bloomberg Screen BTMM (or any substitute screen) or any Alternate Federal Funds Source, a comparable replacement rate determined by the Agent at such time (which determination shall be conclusive absent manifest error)); provided, that if such day is not a Business Day, the Federal Funds Open Rate for such day shall be the Federal Funds Open Rate on the immediately preceding Business Day."

"Fee Letter": the letter from the Agent to the Borrower dated November 14, 2016 regarding certain fees payable by the Borrower.

"Fees": as defined in subsection 2.4(a).

"Foreign Bank": any Bank that is not created or organized under the Laws of the United States, any State thereof or the District of Columbia.

"GAAP": at any time with respect to the determination of the character or amount of any asset or liability or item of income or expense, or any consolidation or other accounting computation, generally accepted accounting principles as applied to the public utility industry, as such principles shall be in effect on the date of, or at the end of the period covered by, the financial statements from which such asset, liability, item of income, or item of expense, is derived, or, in the case of any such computation, as in effect on the date when such computation is required to be determined, subject to Section 1.3(b).

"Governmental Authority": shall mean the government of the United States of America or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supra-national bodies such as the European Union or the European Central Bank) and any group or body charged with setting financial accounting or regulatory capital rules or standards (including, without limitation, the Financial Accounting Standards Board, the Bank for International Settlements or the Basel Committee on Banking Supervision or any successor or similar authority to any of the foregoing).

"Guarantor": any Material Subsidiary which becomes a "Guarantor" after the date hereof pursuant to Section 5.11.

"Guaranty": any Guaranty Agreement entered into by a Guarantor pursuant to Section 5.11.

"Indenture": means the Indenture of Mortgage dated as of January 1, 1941 between the Borrower and Chase Manhattan Trust Company, National Association, as successor Trustee, as amended and supplemented.

"Insolvency": with respect to any Multiemployer Plan, the condition that such Plan is insolvent within the meaning of Section 4245 of ERISA.

"Insolvent": pertaining to a condition of Insolvency.

"Interest Coverage Ratio": at the date of determination, the ratio of Consolidated EBIT to Consolidated Interest Expense, in each case for the prior four (4) consecutive fiscal quarters.

"Interest Payment Date": (a) as to any Base Rate Loan or Swing Line Loan, the last day of each month, (b) as to any Eurodollar Loan having an Interest Period of three months or less, the last day of such Interest Period, and (c) as to any Eurodollar Loan having an Interest Period longer than three months, each day which is three months, or a

whole multiple thereof, after the first day of such Interest Period and the last day of such Interest Period.

"Interest Period": with respect to any Eurodollar Loan:

(i) initially the period commencing on the borrowing or conversion date, as the case may be, with respect to such Eurodollar Loan and ending one, two, three or six months thereafter, as selected by the Borrower in their notice of borrowing or notice of conversion, given with respect thereto; and

(ii) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such Eurodollar Loan and ending one, two, three or six months thereafter, as selected by the Borrower by irrevocable notice to the Agent not less than three Business Days prior to the last day of the then current Interest Period with respect thereto;

provided that, the foregoing provisions relating to Interest Periods are subject to the following:

(i) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(ii) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of a calendar month;

(iii) an Interest Period that otherwise would extend beyond the Termination Date shall end on the Termination Date; and

(iv) the Borrower shall select Interest Periods so as not to require a payment or prepayment of any Eurodollar Loan during an Interest Period for such Loan.

"Investments": investments (by loan or extension of credit, purchase, advance, guaranty, capital contribution or otherwise) made in cash or by delivery of Property, by the Borrower (i) in any Person, whether by acquisition of stock or other ownership interest, indebtedness or other obligation or Security, or by loan, advance or capital contribution, or (ii) in any Property or (iii) any agreement to do any of the foregoing.

"Law": any law(s) (including common law), constitution, statute, treaty, regulation, rule, ordinance, opinion, issued guidance, release, ruling, order, executive order, injunction, writ, decree, bond, judgment, authorization or approval, lien or award of or any settlement arrangement, by agreement, consent or otherwise, with any Governmental Body, foreign or domestic.

"Lien": any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge, or other security interest or any preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement and any Capital Lease having substantially the same economic effect as any of the foregoing).

"Loan Documents": this Agreement, the Notes and any Guaranty.

"Loans": the collective reference to the Revolving Credit Loans and the Swing Line Loans.

"Material" means material in relation to the business, operations, affairs, financial condition, assets or properties of the Borrower and its subsidiaries taken as a whole.

"Material Adverse Effect": a material adverse effect on (a) the validity or enforceability of this Agreement or any other Loan Document, (b) the business, Property, assets, financial condition or results of operations of the Borrower, (c) the ability of the Borrower duly and punctually to pay its Debts and perform its obligations hereunder, or (d) the ability of the Agent or any of the Banks, to the extent permitted, to enforce their legal remedies pursuant to this Agreement or any other Loan Document.

"Material Subsidiary": a Subsidiary of the Borrower the assets or net earnings of which, determined in accordance with GAAP, constitute more than 5% of the Borrower's Consolidated Assets or Consolidated Net Income, as the case may be.

"Materials of Environmental Concern": any gasoline or petroleum (including crude oil or any fraction thereof) or petroleum products or any hazardous or toxic substances, materials or wastes, or pollutants or contaminants defined or regulated as such in or under any Environmental Law, including, without limitation, asbestos, polychlorinated biphenyls, and ureaformaldehyde insulation.

"Moody's": Moody's Investors Service, Inc.

"Multiemployer Plan": a Plan which is a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"Non-Defaulting Bank": at any time, all Banks other than any Defaulting Banks at such time.

"Notes": the Revolving Credit Notes and the Swing Line Notes.

"Other Taxes": as defined in subsection 2.12(b).

"Parent Company": Aqua America, Inc., a Pennsylvania corporation.

"Participant": as defined in Section 9.6(f).

"PBGC": the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA.

"Permitted Acquisition": an acquisition by the Borrower of the stock or assets of a Person engaged in businesses similar or incidental or ancillary to Borrower's existing business, provided that at least 30 days prior to the consummation of any such acquisition for which cash consideration paid by the Borrower (including the assumption of Debt in connection therewith) exceeds $70,000,000, no Default or Event of Default shall exist or would exist if such acquisition were consummated on such date (assuming for purposes of the covenants contained in Section 6.1 that pro forma adjustments are made to the financial statements of the Borrower reflecting such acquisition; provided, that historical EBIT of the Person to be acquired (or the assets of which are to be acquired) shall be included for purposes of calculating such covenant compliance only if historical financial statements of such Person are received by the Agent at least 30 days prior to the consummation of such acquisition), and the Borrower shall have delivered to the Agent a certificate of a Responsible Officer showing calculations in reasonable detail demonstrating such pro forma compliance with the covenants contained in Section 6.1, and provided further, that any such acquisition for which cash consideration paid by the Borrower (including the assumption of Debt in connection therewith) exceeds $75,000,000, shall also have been consented to by the Required Banks.

"Permitted Investments": Investments in:

(a) one or more Material or Wholly-Owned Subsidiaries thereof;

(b) Property to be used in the ordinary course of business of the Borrower;

(c) current assets arising from the sale or purchase of goods and services in the ordinary course of business of the Borrower;

(d) direct obligations of the United States of America, or any agency or instrumentality thereof or obligations guaranteed by the United States of America, provided that such obligations mature within one (1) year from the date of acquisition thereof;

(e) certificates of deposit, time deposits or banker's acceptances, maturing within one (1) year from the date of acquisition, with banks or trust companies organized under the laws of the United States, the unsecured long-term debt obligations of which are rated "A3" or higher by Moody's or "A-" or higher by S&P, and issued, or in the case of banker's acceptance, accepted, by a bank or trust company having capital, surplus and undivided profits aggregating at least $250,000,000;

(f) commercial paper given the highest rating by either S&P or Moody's maturing not more than 270 days from the date of creation thereof;

(g) mutual funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 that hold themselves out as "money market funds;"

(h) trade credit extended on usual and customary terms in the ordinary course of business;

(i) advances to employees to meet expenses incurred by such employees in the ordinary course of business;

(j) Permitted Acquisitions; and

(k) other loans, advances and investments not exceeding in the aggregate $2,000,000 at any one time outstanding.

(l) investments in tax exempt obligations of any state of the United States of America, or any municipality of any such State, in each case rated "Aa2" or higher by Moody's or "AA" or higher by S&P or an equivalent credit rating by another credit rating agency of recognized national standing, provided that such obligations mature or can be tendered by the holder within 365 days from the date of acquisition thereof; and

(m) investments in repurchase agreements.

"Person": an individual, partnership, corporation, business trust, joint stock company, limited liability company, trust, unincorporated association, joint venture, Governmental Authority or other entity of whatever nature.

"Plan": at a particular time, any employee benefit plan which is covered by ERISA and in respect of which the Borrower or a Commonly Controlled Entity is (or, if such plan were terminated at such time, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"PNC": PNC Bank, National Association, a national banking association.

"Prime Rate": the rate of interest per annum announced from time to time by PNC as its prime rate in effect at its principal office in Philadelphia, Pennsylvania; each change in the Prime Rate shall be effective on the date such change is announced as effective.

"Property": any interest in any kind of property or asset, whether real, personal or mixed, and whether tangible or intangible.

"Published Rate" shall mean the rate of interest published each Business Day in The Wall Street Journal "Money Rates" listing under the caption "London Interbank Offered Rates" for a one month period (or, if no such rate is published therein for any reason, then the Published Rate shall be the eurodollar rate for a one month period as published in another publication determined by the Agent).

"Regulation U": Regulation U of the Board of Governors of the Federal Reserve System as from time to time in effect, and all official rulings and interpretations thereunder or thereof.

"Regulation X": Regulation X of the Board of Governors of the Federal Reserve System as from time to time in effect, and all official rulings and interpretations thereunder or thereof.

"Reorganization": with respect to any Multiemployer Plan, the condition that such plan is in reorganization within the meaning of Section 4241 of ERISA.

"Reportable Compliance Event": any event or occurrence where a Covered Entity becomes a Sanctioned Person, or is charged by indictment, criminal complaint or similar charging instrument, arraigned, or custodially detained in connection with any Anti-Terrorism Law or any predicate crime to any Anti-Terrorism Law, or has knowledge of facts or circumstances to the effect that it is reasonably likely that any aspect of its operations is in actual or probable violation of any Anti-Terrorism Law.

"Reportable Event": any of the events set forth in Section 4043(b) of ERISA, except to the extent that notice thereof has been waived by the PBGC.

"Required Banks": at any time, (a) Banks the Exposures of which aggregate at least 51% of the Total Exposure at such time of the Banks, or (b) if there are no Loans outstanding, Banks whose Commitments aggregate at least 51% of the Total Commitment at such time.

"Requirement of Law": as to any Person, the Certificate of Incorporation, By-Laws, Operating Agreement or other organizational or governing documents of such Person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case binding upon such Person or any of its property or to which such Person or any of its property is subject.

"Responsible Officer": as to any Borrower, any officer of such Borrower or of the manager of such Borrower.

"Revolving Credit Loans": the revolving loans made by the Banks to the Borrower pursuant to Section 2.1(a). Each Loan shall be a Eurodollar Loan or a Base Rate Loan.

"Revolving Credit Note": a promissory note of the Borrower in the form of Exhibit B-1, as the same may be amended, supplemented or otherwise modified from time to time.

"Sanctioned Country": a country, region or territory subject to or target of a sanctions program maintained under any Anti-Terrorism Law.

"Sanctioned Person": any individual person, group, regime, entity or thing listed or otherwise recognized as a specially designated, prohibited, sanctioned or debarred

person, group, regime, entity or thing, or subject to any limitations or prohibitions (including but not limited to the blocking of property or rejection of transactions), under any Anti-Terrorism Law.

"S&P": Standard & Poor's Ratings Services, a division of Standard & Poor's Financial Services LLC.

"Security": "security" as defined in Section 2(1) of the Securities Act of 1933, as amended.

"Single Employer Plan": any Plan which is covered by Title IV of ERISA, but which is not a Multiemployer Plan.

"Solvent": as to any Person, as of the time of determination, the financial condition under which the following conditions are satisfied:

(a) the fair market value of the assets of such Person will exceed the debts and liabilities, subordinated, contingent or otherwise, of such Person; and

(b) the present fair saleable value of the Property of such Person will be greater than the amount that will be required to pay the probable liability of such Person on its debts and other liabilities, subordinated, contingent or otherwise, as such debts and other liabilities become absolute and matured; and

(c) such Person will be able to pay its debts and liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured; and

(d) such Person will not have unreasonably small capital with which to conduct the businesses in which it is engaged as such businesses are then conducted and are proposed to be conducted after the date thereof.

"Subordinated Debt": at any time, all Debt of the Borrower subordinated to all of the obligations of the Borrower to the Banks on terms satisfactory to the Banks.

"Subsidiary": as to any Person, (i) any corporation, limited liability company, company or trust of which 50% or more (by number of shares or number of votes) of the outstanding capital stock, interests, shares or similar items of beneficial interest normally entitled to vote for the election of one or more directors, managers or trustees (regardless of any contingency which does or may suspend or dilute the voting rights) is at such time owned directly or indirectly by such person or one or more of such Person's Subsidiaries, or any partnership of which such Person is a general partner or of which 50% or more of the partnership interests is at the time directly or indirectly owned by such Person or one or more of such Person's Subsidiaries, and (ii) any corporation, company, trust, partnership or other entity which is controlled or capable of being controlled by such Person or one or more of such Person's subsidiaries. Unless otherwise indicated, all references to a "Subsidiary" or to "Subsidiaries" in this Agreement shall refer to a Subsidiary of the Borrower.

"Supplemental Indenture": means the Forty-Sixth Supplemental Indenture to the Indenture dated as of October 15, 2010.

"Swing Line Bank": PNC Bank, National Association, or any other Bank to which the Swing Line Commitment is assigned pursuant to the terms of Section 9.6.

"Swing Line Collateral Account": as defined in Section 2.17(b)(ii).

"Swing Line Commitment": the amount set forth opposite the Swing Line Bank's name under the heading "Swing Line Commitment" on Schedule I hereto, as such amount may be reduced pursuant to Section 2.2(f).

"Swing Line Loans": as defined in Section 2.2(a).

"Swing Line Note": as defined in Section 2.2(c), as the same may be amended, supplemented or otherwise modified from time to time.

"Swing Line Repayment Date": as defined in Section 2.2(b).

"Taxes": as defined in subsection 2.12(a).

"Term Loan Facilities": means collectively: (i) the term loan facility evidenced by that certain Term Loan Agreement, dated as of September 29, 2014, by and among the Borrower, the lenders party thereto, and Agent; and (ii) the term loan facility evidenced by that certain Term Loan Agreement, dated as of May 6, 2015, by and among the Borrower, the lenders party thereto, and Agent.

"Termination Date": the earlier of (a) November 16, 2017 or any later date to which the Termination Date shall have been extended pursuant to subsection 2.8(d) hereof and (b) the date the Commitments are terminated as provided herein.

"Total Commitment": at any time, the aggregate amount of the Banks' Commitments, as in effect at such time.

"Total Commitment Percentage": as to any Bank at any time, the proportion (expressed as a percentage) that such Bank's Commitment bears to the Total Commitment.

"Total Exposure": at any time, the aggregate amount of the Banks' Exposures at such time.

"Tranche": the collective reference to Eurodollar Loans whose Interest Periods begin on the same date and end on the same later date (whether or not such Loans originally were made on the same date).

"Type": when used in respect of any Revolving Credit Loan or Borrowing of Revolving Credit Loans, shall refer to the Rate by reference to which interest on such Revolving Credit Loan or on the Revolving Credit Loans comprising such Borrowing is

determined. For purposes hereof, "Rate" shall include the Eurodollar Rate and the Base Rate.

"USA Patriot Act": shall mean the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Public Law 107-56, as the same has been, or shall hereafter be, renewed, extended, amended or replaced.

"Voting Stock": capital stock of any class or classes of a corporation the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the directors (or Persons performing similar functions) and, as applicable, any equity, participation or ownership interests in any partnership, business trust, joint stock company, limited liability company, trust, unincorporated association, joint venture or any other Person which interests are similar by analogy to capital stock or ownership rights giving rise to voting or governance rights.

"Wholly-Owned Subsidiary": at any time, any Subsidiary one hundred percent (100%) of all of the equity Securities (except directors' qualifying shares) and voting Securities of which are owned by any one or more of the Borrower at such time.

"Write-Down and Conversion Powers": with respect to any EEA Resolution Authority, the write-down and conversion powers of such EEA Resolution Authority from time to time under the Bail-In Legislation for the applicable EEA Member Country, which write-down and conversion powers are described in the EU Bail-In Legislation Schedule.

1.2 Other Definitional Provisions. (a) Unless otherwise specified therein, all terms defined in this Agreement shall have the defined meanings when used in the Notes or any certificate or other document made or delivered pursuant hereto.

(b) The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section, subsection, Schedule and Exhibit references are to this Agreement unless otherwise specified.

1.3 Construction. (a) Unless the context of this Agreement otherwise clearly requires, references to the plural include the singular, the singular the plural and the part the whole, "or" has the inclusive meaning represented by the phrase "and/or," and "including" has the meaning represented by the phrase "including without limitation." References in this Agreement to "determination" of or by the Agent or the Banks shall be deemed to include good faith estimates by the Agent or the Banks (in the case of quantitative determinations) and good faith beliefs by the Agent or the Banks (in the case of qualitative determinations). Whenever the Agent or the Banks are granted the right herein to act in their sole discretion or to grant or withhold consent such right shall be exercised in good faith, except as otherwise provided herein. Except as otherwise expressly provided, all references herein to the "knowledge of" or "best knowledge of" the Borrower shall be deemed to refer to the knowledge of a Responsible Officer thereof. The words "hereof," "herein," "hereunder", "hereby" and similar terms in this

Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. The section and other headings contained in this Agreement and the Table of Contents preceding this Agreement are for reference purposes only and shall not control or affect the construction of this Agreement or the interpretation thereof in any respect. Section, subsection, schedule and exhibit references are to this Agreement unless otherwise specified.

(b) Except as otherwise provided in this Agreement, all computations and determinations as to accounting or financial matters and all financial statements to be delivered pursuant to this Agreement shall be made and prepared in accordance with GAAP (including principles of consolidation where appropriate). As used herein and in the Notes, and any certificate or other document made or delivered pursuant hereto, accounting terms relating to the Borrower and any Subsidiary thereof not defined in subsection 1.1 and accounting terms partly defined in subsection 1.1, to the extent not defined, shall have the respective meanings given to them under GAAP. In the event that any future change in GAAP, without more, materially affects the Borrower's compliance with any financial covenant herein, the Borrower, the Banks and the Agent shall use their best efforts to modify such covenant in order to account for such change and to secure for the Banks the intended benefits of such covenant.

SECTION 2. THE CREDITS

2.1 Revolving Credit Loans. (a) Subject to the terms and conditions and relying upon the representations and warranties herein set forth, each Bank, severally and not jointly, agrees to make Revolving Credit Loans to the Borrower, at any time or from time to time on or after the date hereof and until the Termination Date or until the Commitment of such Bank shall have been terminated in accordance with the terms hereof, in an aggregate principal amount at any time outstanding which, when added to such Bank's Commitment Percentage of the principal amount of Swing Line Loans then outstanding does not exceed such Bank's Commitment subject, however, to the conditions that (i) at no time shall (x) the sum of the outstanding aggregate principal amount of all Loans made by all Banks exceed (y) the Total Commitment and (ii) at all times the outstanding aggregate principal amount of all Revolving Credit Loans required to be made by each Bank shall equal the product of (x) its Commitment Percentage times (y) the outstanding aggregate principal amount of all Revolving Credit Loans required to be made pursuant to subsection 2.1 at such time. Such Commitments may be terminated or reduced from time to time pursuant to Section 2.8. Within the foregoing limits, the Borrower may borrow, repay and reborrow under the Commitment on or after the date hereof and prior to the Termination Date, subject to the terms, provisions and limitations set forth herein.

(b) Each Revolving Credit Loan shall be made as part of a Borrowing consisting of Revolving Credit Loans made by the Banks ratably in accordance with their Commitment Percentages; provided, however, that the failure of any Bank to make any Revolving Credit Loan shall not in itself relieve any other Bank of its obligation to lend hereunder (it being understood, however, that no Bank shall be responsible for the failure of any other Bank to make any Revolving Credit Loan required to be made by such other Bank). The Revolving Credit Loans comprising any Eurodollar Borrowing shall be in a minimum aggregate principal amount of $500,000 or a whole multiple of $100,000 in excess thereof (or an aggregate principal amount equal to the remaining balance of the available Commitments) and the

Revolving Credit Loans comprising any Base Rate Borrowing shall be in a minimum aggregate principal amount of $250,000 or a whole multiple of $50,000 in excess thereof (or an aggregate principal amount equal to the remaining balance of the available Commitments). Each Borrowing of Revolving Credit Loans shall be comprised entirely of Eurodollar Loans or Base Rate Loans, as the Borrower may request pursuant to Section 2.1.

(c) In order to request a Borrowing, the Borrower shall hand deliver or telecopy (or notify by telephone and promptly confirm by hand delivery or telecopy) to the Agent the information requested by the form of Borrowing Request attached as Exhibit A hereto (i) in the case of a Eurodollar Borrowing, not later than 11:00 a.m., Philadelphia time, three Business Days before a proposed Borrowing and (ii) in the case of a Base Rate Borrowing, not later than 11:00 a.m., Philadelphia time, on the day of a proposed Borrowing. Such notice shall be irrevocable and shall in each case specify (x) whether the Borrowing then being requested is to be a Eurodollar Borrowing or a Base Rate Borrowing; (y) the date of such Borrowing (which shall be a Business Day) and the amount thereof; and (z) if such Borrowing is to be a Eurodollar Borrowing, the Interest Period with respect thereto. If no election as to the Type of Borrowing is specified in any such notice, then the requested Borrowing shall be a Base Rate Borrowing. If no Interest Period with respect to any Eurodollar Borrowing is specified in any such notice, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. The Agent shall promptly advise the Banks of any notice given pursuant to this Section 2.1 and of each Bank's portion of the requested Borrowing.

2.2 Swing Line Loans. (a) Subject to the terms and conditions hereof, the Swing Line Bank may in its discretion make swing line loans (the "Swing Line Loans") to the Borrower from time to time until the Termination Date or until the Swing Line Commitment is terminated in accordance with the terms hereof in the aggregate up to the amount of the Swing Line Commitment for periods requested by the Borrower and agreed to by the Swing Line Bank; provided, that, no Swing Line Loan shall be made if, after giving effect to the making of such Loan and the simultaneous application of the proceeds thereof, the Total Exposure would exceed the Total Commitment. Within the foregoing limits, the Borrower may borrow, repay and reborrow under the Swing Line Commitment, subject to and in accordance with the terms and limitations hereof.

(b) The Borrower may request a Swing Line Loan to be made on any Business Day. Each request for a Swing Line Loan shall be in writing (or by telephone promptly confirmed in writing) and delivered to the Swing Line Bank not later than 12:00 noon, Philadelphia time, on the Business Day such Swing Line Loan is to be made, specifying in each case (i) the amount to be borrowed, (ii) the requested borrowing date, (iii) whether the interest rate applicable to such Swing Line Loan is to be: (A) the Base Rate or (B) an interest rate mutually agreed upon by the Borrower and the Swing Line Bank and (iv) the date such Swing Line Loan is to be repaid (the "Swing Line Repayment Date"). The request for such Swing Line Loan shall be irrevocable. Provided that all applicable conditions precedent contained in Section 4.2 hereof have been satisfied, the Swing Line Bank shall, not later than 4:00 p.m., Philadelphia time, on the date specified in the Borrower's request for such Swing Line Loan, make such Swing Line Loan by crediting the Borrower's deposit account with the Swing Line Bank.

(c) The obligation of the Borrower to repay the Swing Line Loans shall be evidenced by a promissory note of the Borrower dated the date hereof, payable to the order of the Swing Line Bank in the principal amount of the Swing Line Commitment and substantially in the form of Exhibit B-2 (as amended, supplemented or otherwise modified from time to time, the "Swing Line Note").

(d) Interest shall accrue on the outstanding principal balance of a Swing Line Loan at the interest rate chosen by the Borrower in accordance with Section 2.2(b) with respect to such Swing Line Loan and shall be payable on each applicable Interest Payment Date and upon the repayment of such Swing Line Loan.

(e) A Swing Line Loan shall be repaid on the earlier of (i) the Termination Date and (ii) the Swing Line Repayment Date for such Swing Line Loan. Unless the Borrower shall have notified the Agent prior to 11:00 a.m., Philadelphia time, on such Swing Line Repayment Date that the Borrower intends to repay such Swing Line Loan with funds other than the proceeds of a Revolving Credit Loan, the Borrower shall be deemed to have given notice to the Agent requesting the Banks to make a Revolving Credit Loan which shall be a Base Rate Borrowing in accordance with Section 2.1 on the Swing Line Repayment Date in an aggregate amount equal to the amount of such Swing Line Loan plus interest thereon, and (A) subject to satisfaction or waiver of the conditions specified in Section 4.2, the Banks shall, on the Swing Line Repayment Date, make a Revolving Credit Loan which shall be a Base Rate Borrowing, in an aggregate amount equal to the amount of such Swing Line Loan plus interest thereon, the proceeds of which shall be applied directly by the Agent to repay the Swing Line Bank for such Swing Line Loan plus accrued interest thereon; and provided, further, that if for any reason the proceeds of such Base Rate Borrowing are not received by the Swing Line Bank on the Swing Line Repayment Date in an aggregate amount equal to the amount of such Swing Line Loan plus accrued interest, the Borrower shall reimburse the Swing Line Bank on the day immediately following the Swing Line Repayment Date, in same day funds, in an amount equal to the excess of the amount of such Swing Line Loan over the aggregate amount of such Base Rate Borrowing, if any, received plus accrued interest thereon.

(f) In the event that the Borrower shall fail to repay the Swing Line Bank as provided in Section 2.2(e) in an amount equal to the amount required under Section 2.2(e), the Agent shall promptly notify each Bank of the unpaid amount of such Swing Line Loan and of such Bank's respective participation therein in an amount equal to such Bank's Commitment Percentage of such Swing Line Loan. Each Bank shall make available to the Agent for payment to the Swing Line Bank an amount equal to its respective participation therein (including without limitation its pro rata share of accrued but unpaid interest thereon), in same day funds, at the office of the Agent specified in such notice, not later than 11:00 a.m., Philadelphia time, on the Business Day after the date the Agent notifies each Bank. In the event that any Bank fails to make available to the Agent the amount of such Bank's participation in such unpaid amount as provided herein, the Swing Line Bank shall be entitled to recover such amount on demand from such Bank together with interest thereon at a rate per annum equal to the Base Rate for each day during the period between the Swing Line Repayment Date and the date on which such Bank makes available its participation in such unpaid amount. The failure of any Bank to make available to the Agent its pro rata share of any such unpaid amount shall not relieve any other Bank of its obligations hereunder to make available to the Agent its pro rata

share of such unpaid amount on the Swing Line Repayment Date. The Agent shall distribute to each Bank which has paid all amounts payable by it under this Section 2.2(f) with respect to the unpaid amount of any Swing Line Loan, such Bank's Commitment Percentage of all payments received by the Agent from the Borrower in repayment of such Swing Line Loan when such payments are received. Notwithstanding anything to the contrary herein, each Bank which has paid all amounts payable by it under this Section 2.2(f) shall have a direct right to repayment of such amounts from the Borrower subject to the procedures for repaying Banks set forth in this Section 2.2.

(g) In the event the Commitments are terminated in accordance with Section 2.8 hereof, the Swing Line Commitment shall also be terminated automatically. In the event the Borrower reduces the Total Commitment to less than the Swing Line Commitment, the Swing Line Commitment shall immediately be reduced to an amount equal to the Total Commitment. In the event the Borrower reduces the Total Commitment to less than the outstanding principal amount of the Swing Line Loans, the Borrower shall immediately repay the amount by which the outstanding Swing Line Loans exceed the Swing Line Commitment as so reduced plus accrued interest thereon.

(h) At no time shall there be more than two outstanding Swing Line Loans.

(i) Each Swing Line Loan shall be in an original principal amount of $100,000 or multiples of $50,000 in excess thereof.

(j) The Borrower shall have the right at any time and from time to time to prepay any Swing Line Loan, in whole or in part, without premium or penalty, upon prior written, telecopy or telephonic notice to the Swing Line Bank given no later than 1:00 p.m., Philadelphia time, on the date of any proposed prepayment. Each notice of prepayment shall specify the Swing Line Loan to be prepaid and the amount to be prepaid, shall be irrevocable and shall commit the Borrower to prepay such amount on such date, with accrued interest thereon.

(k) In addition to making Swing Line Loans pursuant to the foregoing provisions of this Section 2.2, the Swing Line Bank may also make Swing Line Loans to the Borrower without the requirement for a specific request from the Borrower pursuant to Section 2.2(b) in accordance with the provisions of the agreements between the Borrower and the Swing Line Bank relating to the Borrower's deposit, sweep and other accounts at the Swing Line Bank and related arrangements and agreements regarding the management and investment of Borrower's cash assets as in effect from time to time (the "Cash Management Agreements") to the extent of the daily aggregate net negative balance in the Borrower's accounts which are subject to the provisions of the Cash Management Agreements. Swing Line Loans made pursuant to this Section 2.2(k) in accordance with the provisions of the Cash Management Agreements shall (i) be subject to the limitations as to aggregate amount set forth in Section 2.2(a), (ii) not be subject to the limitations as to number or individual amount set forth in Sections 2.2(h) and (i), (iii) be payable by the Borrower, both as to principal and interest, at the times set forth in the Cash Management Agreements (but in no event later than the Termination Date), (iv) not be made at any time after the Swing Line Bank has notice of the occurrence of a Default or Event of Default, (v) if not repaid by the Borrower in accordance with the provisions

of the Cash Management Agreements, be subject to each Bank's obligation to purchase participating interests therein pursuant to Section 2.2(f), and (vi) except as provided in the foregoing subsections (i) through (v), be subject to all of the terms and conditions of this Section 2.2.

2.3 General Provisions Regarding Loans. (a) Subject to Section 2.3(b), each Bank shall make each Revolving Credit Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds to the Agent in Philadelphia, Pennsylvania, not later than 1:00 p.m., Philadelphia time, and the Agent shall by 3:00 p.m., Philadelphia time, credit the amounts so received to the general deposit account of the Borrower with the Agent or, if a Borrowing shall not occur on such date because any condition precedent herein specified shall not have been met, return the amounts so received to the respective Banks. Loans shall be made by the Banks pro rata in accordance with Section 2.14. Unless the Agent shall have received notice from a Bank prior to the date of any Borrowing that such Bank will not make available to the Agent such Bank's portion of such Borrowing, the Agent may assume that such Bank has made such portion available to the Agent on the date of such Borrowing in accordance with this paragraph (c) and the Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Bank shall not have made such portion available to the Agent, such Bank and the Borrower severally agree to repay to the Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Agent at (i) in the case of the Borrower, the interest rate applicable at the time to the Revolving Credit Loans comprising such Borrowing and (ii) in the case of such Bank, the Federal Funds Effective Rate. If such Bank shall repay to the Agent such corresponding amount, such amount shall constitute such Bank's Revolving Credit Loan as part of such Borrowing for purposes of this Agreement.

(b) The Borrower may refinance all or any part of any Borrowing with any other Borrowing, subject to the conditions and limitations set forth herein and elsewhere in this Agreement. Any Borrowing or part thereof so refinanced shall be deemed to be repaid in accordance with Section 2.5 with the proceeds of a new Borrowing hereunder and the proceeds of the new Borrowing, to the extent they do not exceed the principal amount of the Borrowing being refinanced, shall not be paid by the Banks to the Agent or by the Agent to the Borrower; provided, however, that (i) if the principal amount extended by a Bank in a refinancing is greater than the principal amount extended by such Bank in the Borrowing being refinanced, then such Bank shall pay such difference to the Agent for distribution to the Banks described in (ii) below, (ii) if the principal amount extended by a Bank in the Borrowing being refinanced is greater than the principal amount agreed to be extended by such Bank in the refinancing, the Agent shall return the difference to such Bank out of amounts received pursuant to (i) above, and (iii) to the extent any Bank fails to pay the Agent amounts due from it pursuant to (i) above, any Revolving Credit Loan or portion thereof being refinanced with such amounts shall not be deemed repaid in accordance with Section 2.5 and shall be payable by the Borrower without prejudice to the Borrower's rights against any such Bank.

(c) Each Bank may at its option fulfill its commitment hereunder with respect to any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Bank to make such Revolving Credit Loan; provided, however, that (A) any exercise of such

option shall not affect the obligation of the Borrower to repay such Revolving Credit Loan in accordance with the terms of the Agreement and the applicable Note and (B) the Borrower shall not be liable for increased costs under Sections 2.11 or 2.12 to the extent that (x) such costs could be avoided by the use of a different branch or Affiliate to make Eurodollar Loans and (y) such use would not, in the judgment of such Bank, entail any significant additional expense for which such Bank shall not be indemnified hereunder or otherwise be disadvantageous to it; and

(d) All Borrowings, conversions and continuations of Revolving Credit Loans hereunder and all selections of Interest Periods hereunder shall be in such amounts and be made pursuant to such elections that, after giving effect thereto, (A) the aggregate principal amount of the Revolving Credit Loans comprising each Tranche of Eurodollar Loans shall be equal to $500,000 or a whole multiple of $100,000 in excess thereof and (B) the Borrower shall not have outstanding at any one time more than in the aggregate five (5) separate Tranches of Eurodollar Loans.

(e) Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request any Borrowing if the Interest Period requested with respect thereto would end after the Termination Date.

2.4 Fees. (a) The Borrower agrees to pay to the Agent the fees at the times and in the amounts as are set forth in the Fee Letter (collectively, the "Fees").

(b) All Fees shall be paid on the dates due, in immediately available funds, to the Agent for distribution, if and as appropriate, among the Banks. Once paid, none of the Fees shall be refundable under any circumstances.

2.5 Revolving Credit Notes; Repayment of Revolving Credit Loans. The Revolving Credit Loans made by each Bank shall be evidenced by a single Revolving Credit Note duly executed on behalf of the Borrower, dated the Closing Date, in substantially the form attached hereto as Exhibit B-1 with the blanks appropriately filled, payable to such Bank in a principal amount equal to the Commitment of such Bank. Each Revolving Credit Note shall bear interest from the date thereof on the outstanding principal balance thereof as set forth in Section 2.6. Each Bank shall, and is hereby authorized by the Borrower to, endorse on the schedule attached to the relevant Revolving Credit Note held by such Bank (or on a continuation of such schedule attached to each such Revolving Credit Note and made a part thereof), or otherwise to record in such Bank's internal records, an appropriate notation evidencing the date and amount of each Revolving Credit Loan of such Bank, each payment or prepayment of principal of any Revolving Credit Loan, and the other information provided for on such schedule; provided, however, that the failure of any Bank to make such a notation or any error therein shall not in any manner affect the obligation of the Borrower to repay the Revolving Credit Loans made by such Bank in accordance with the terms of the relevant Revolving Credit Note. The outstanding principal balance of each Revolving Credit Loan, as evidenced by the relevant Revolving Credit Note, shall be payable on the Termination Date.

2.6 Interest on Revolving Credit Loans. (a) Subject to the provisions of Section 2.7, each Base Rate Loan shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) at a rate per annum equal to the Base Rate.

(b) Subject to the provisions of Section 2.7, each Eurodollar Loan shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) at a rate per annum equal to the Eurodollar Rate for the Interest Period in effect for such Loan plus sixty-five (65) basis points (0.65%).

(c) Interest on each Revolving Credit Loan shall be payable on each Interest Payment Date applicable to such Revolving Credit Loan; provided that, interest accruing on overdue amounts pursuant to Section 2.7 shall be payable on demand as provided in the Revolving Credit Notes. The Eurodollar Rate and the Base Rate shall be determined by the Agent, and such determination shall be conclusive absent error.

2.7 Default Rate; Additional Interest; Alternate Rate of Interest. (a) To the extent not contrary to any Requirement of Law, upon the occurrence and during the continuation of an Event of Default, any principal, past due interest, fee or other amount outstanding hereunder shall, at the option of the Required Banks, bear interest for each day thereafter until paid in full (after as well as before judgment) at a rate per annum which shall be equal to two percent (2%) above the Base Rate (but in no event shall any such rate exceed the maximum rate permitted by any Requirement of Law). The Borrower acknowledges that such increased interest rate reflects, among other things, the fact that such loans or other amounts have become a substantially greater risk given their default status and that the Banks are entitled to additional compensation for such risk.

(b) In the event, and on each occasion, that on the day two Business Days prior to the commencement of any Interest Period for a Eurodollar Loan, the Agent shall have determined (which determination absent manifest error shall be conclusive and binding upon the Borrower) that dollar deposits in the principal amount of such Eurodollar Loan are not generally available in the London Interbank Market, or that the rate at which such dollar deposits are being offered will not adequately and fairly reflect the cost to the Banks of making or maintaining the principal amount of such Eurodollar Loan during such Interest Period, or that reasonable means do not exist for ascertaining the Eurodollar Rate, the Agent shall, as soon as practicable thereafter, give written, telegraphic or telephonic notice of such determination to the Borrower and the Banks, and any request by the Borrower for a Eurodollar Loan or for conversion to or maintenance of a Eurodollar Loan pursuant to the terms of this Agreement shall be deemed a request for a Base Rate Loan. After such notice shall have been given and until the circumstances giving rise to such notice no longer exist, each request for a Eurodollar Loan shall be deemed to be a request for a Base Rate Loan. Each determination by the Agent hereunder shall be conclusive absent manifest error.

2.8 Termination, Reduction, Extension of Commitments; Additional Banks. (a) The Commitments shall be automatically terminated on the Termination Date.

(b) Subject to the last sentence of this paragraph, upon at least three Business Days' prior irrevocable written or telecopy notice to the Agent, the Borrower may at

any time in whole permanently terminate, or from time to time permanently reduce, the Total Commitment. Each partial reduction of the Total Commitment shall be in a minimum principal amount of $1,000,000 or in whole multiples of $500,000 in excess thereof, and no such termination or reduction shall be made which would reduce the Total Commitment to an amount less than the aggregate outstanding principal amount of the Loans.

(c) Each reduction in the Total Commitment hereunder shall be made ratably among the Banks in accordance with their respective Commitment Percentages. In connection with any reduction of the Total Commitment, the Borrower shall make any prepayment required under subsection 2.9(b).

(d) During the period beginning ninety days prior to the Termination Date then in effect and ending sixty days prior to such Termination Date, the Borrower may deliver to the Agent (which shall promptly transmit to each Bank) a notice requesting that the Commitments be extended for a 364 day period beyond the Termination Date then in effect. Within thirty days after its receipt of any such notice, each Bank shall notify the Agent of its willingness or unwillingness so to extend its Commitment. Any Bank that shall fail so to notify the Agent within such period shall be deemed to have declined to extend its Commitment. If each (but only if each) Bank agrees to extend its Commitment, the Agent shall so notify the Company and each Bank, whereupon (i) the respective Commitments of the Banks shall without further act by any party hereto, be extended for a 364 day period beyond the Termination Date then in effect and (ii) the term "Termination Date" shall thereafter mean the last day of such period. Any such extension shall be evidenced by a written agreement among the Agent, the Banks and the Borrower, such agreement to be in form and substance acceptable to the Agent, the Banks and the Borrower. In the event that one or more Banks (each a "Non-Electing Bank") shall have declined or been deemed to have declined to extend its or their Commitment and Banks holding a majority in amount of the Commitments shall have notified the Agent of their desire to extend their Commitments, the Borrower shall have the right, but not the obligation, at its own expense, upon notice to each such Non-Electing Bank and the Agent, to replace all (but not less than all) such Non-Electing Banks (in accordance with and subject to the restrictions contained in Section 9.6) at any time before the twentieth (20th) day prior to the Termination Date with one or more assignees (each a "Replacement Bank") willing to purchase the Non-Electing Banks' interests hereunder and to agree to extend its or their Commitment in accordance with the notice referred to in the first sentence of this clause (d). In such event, each Non-Electing Bank shall promptly upon request transfer and assign without recourse (in accordance with and subject to the restrictions contained in Section 9.6) all its interests, rights and obligations under this Agreement to the applicable Replacement Bank; provided, however, that (i) no such assignment shall conflict with any law or any rule, regulation or order of any Governmental Authority, (ii) the applicable Replacement Bank shall pay to the applicable Non-Electing Bank in immediately available funds on the date of such assignment the principal of and interest accrued to the date of payment on the Loans made by such Non-Electing Bank hereunder and all other amounts accrued for such Non-Electing Bank's account or owed to it hereunder (including any unpaid costs or expenses), and (iii) a Non-Electing Bank shall not be required to sell its interests hereunder unless the Borrower has arranged for one or more Replacement Banks to acquire the interests of all other Non-Electing Banks. If, as a result of the foregoing, each Bank (including Replacement Banks, but excluding Non-Electing Banks whose interests have been purchased as provided above) has agreed to extend its Commitment, the

Commitments shall be extended as provided in clause (i) of the fourth sentence of this paragraph and the term Termination Date shall have the meaning set forth in clause (ii) in such fourth sentence of this clause (d).

(e) Any bank or financial institution becoming a party to this Agreement in compliance with the provisions of subsection 2.8(d) hereof shall execute and deliver to the Agent and the Banks and the Borrower a joinder and assumption agreement in form and substance satisfactory to the Agent. Upon execution and delivery of such joinder such additional bank or financial institution shall be a party hereto and one of the Banks hereunder for all purposes, all as of the date of such joinder. Simultaneously therewith the Borrower shall execute and deliver to such additional Bank an additional Note to the order of such additional Bank in an amount equal to the Commitment assumed by such additional Bank.

2.9 Optional and Mandatory Prepayments of Loans. (a) The Borrower shall have the right at any time and from time to time to prepay any Borrowing, in whole or in part, without premium or penalty (but in any event subject to Section 2.13), upon prior written, telecopy or telephonic notice to the Agent given no later than 11:00 a.m., Philadelphia time, one Business Day before any proposed prepayment; provided, however, that each such partial prepayment of a Eurodollar Borrowing shall be in the principal amount of at least $500,000 or in whole multiples of $100,000 in excess thereof and each such partial prepayment of a Base Rate Borrowing shall be in the principal amount of at least $250,000 or in whole multiples of $50,000 in excess thereof.

(b) On the date of any termination or reduction of the Total Commitment pursuant to Section 2.8, the Borrower shall pay or prepay so much of the Borrowings as shall be necessary in order that the aggregate principal amount of the Loans then outstanding will not exceed the Total Commitment after giving effect to such termination or reduction.

(c) Each notice of prepayment shall specify the prepayment date and the principal amount of each Borrowing to be prepaid, shall be irrevocable and shall commit the Borrower to prepay such Borrowing (or portion thereof) by the amount stated therein. All prepayments under this Section on other than Base Rate Borrowings shall be accompanied by accrued interest on the principal amount being prepaid to the date of prepayment.

2.10 Illegality. Notwithstanding any other provision herein, if any change in any Requirement of Law or in the interpretation or application thereof shall make it unlawful for any Bank to make or maintain Eurodollar Loans as contemplated by this Agreement, (a) the commitment of such Bank hereunder to make Eurodollar Loans, continue Eurodollar Loans as such and convert or refinance Base Rate Loans to Eurodollar Loans shall forthwith be cancelled and (b) such Bank's Revolving Credit Loans then outstanding as Eurodollar Loans, if any, shall be converted automatically to Base Rate Loans on the respective last days of the then current Interest Periods with respect to such Revolving Credit Loans or within such earlier period as required by law. If any such conversion of a Eurodollar Loan occurs on a day which is not the last day of the then current Interest Period with respect thereto, the Borrower shall pay to such Bank such amounts, if any, as may be required pursuant to Section 2.13.

2.11 Requirements of Law. (a) In the event that any Change in Law shall:

(i) subject any Bank to any tax of any kind whatsoever with respect to this Agreement, any Note or Eurodollar Loan made by it, or change the basis of taxation of payments to such Bank in respect thereof (except for Taxes or Other Taxes covered by Section 2.12 and the imposition of, or any change in the rate of, any Excluded Tax payable by any Bank);

(ii) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, any Bank (except any reserve requirement reflected in the Eurodollar Rate); or

(iii) impose on any Bank or the London interbank market any other condition, cost or expense affecting this Agreement or any Eurodollar Loan made by such Bank;

and the result of any of the foregoing shall be to increase the cost to such Bank of making, converting to, continuing or maintaining any Eurodollar Loan (or of maintaining its obligation to make any such Loan), or to increase the cost to such Bank, or to reduce the amount of any sum received or receivable by such Bank hereunder (whether of principal, interest or any other amount) then, upon request of such Bank, the Borrower will pay to such Bank, such additional amount or amounts as will compensate such Bank, for such additional costs incurred or reduction suffered; provided, that the Borrower shall not be liable for any such amounts incurred or suffered by such Bank more than 180 days prior to the date of such Bank's notification to the Borrower. If any Bank becomes entitled to claim any additional amounts pursuant to this subsection, it shall as promptly as practicable notify the Borrower, through the Agent, of the event by reason of which it has become so entitled. A certificate explaining and detailing any additional amounts payable pursuant to this subsection submitted by such Bank, through the Agent, to the Borrower shall be conclusive in the absence of clearly demonstrable error. If any such amount paid by the Borrower to such Bank is subsequently determined not to have been due and is refunded to such Bank, such Bank will reimburse the Borrower for amounts paid in respect of such refunded amount. This covenant shall survive the termination of this Agreement and the payment of the Notes and all other amounts payable hereunder.

(b) If any Bank determines that any Change in Law affecting such Bank or any lending office of such Bank or such Bank's holding company, if any, regarding capital requirements has or would have the effect of reducing the rate of return on such Bank's capital or on the capital of such Bank's holding company, if any, as a consequence of this Agreement, the Commitment of such Bank or the Loans made by, or participations in Swing Loans held by, such Bank, to a level below that which such Bank or such Bank's holding company could have achieved but for such Change in Law (taking into consideration such Bank's policies and the policies of such Bank's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Bank, such additional amount or amounts as will compensate such Bank or such Bank's holding company for any such reduction suffered. If any Bank becomes entitled to claim any additional amounts pursuant to this subsection, it shall as promptly as practicable notify the Borrower, through the Agent, of the

event by reason of which it has become so entitled. A certificate explaining and detailing any additional amounts payable pursuant to this subsection submitted by such Bank, through the Agent, to the Borrower shall be conclusive in the absence of clearly demonstrable error. This covenant shall survive the termination of this Agreement and the payment of the Notes and all other amounts payable hereunder.

(c) Each Bank agrees that it will use reasonable efforts in order to avoid or to minimize, as the case may be, the payment by the Borrower of any additional amount under subsections 2.11(a) and (b); provided, however, that no Bank shall be obligated to incur any expense, cost or other amount in connection with utilizing such reasonable efforts. Notwithstanding any other provision of this Section 2.11, no Bank shall apply the provisions of subsections 2.11(a) or (b) hereof with respect to the Borrower if it shall not at the time be the general policy or practice of the Bank exercising its rights hereunder to apply the provisions similar to those of this Section 2.11 to other borrowers in substantially similar circumstances under substantially comparable provisions of other credit agreements."

2.12 Taxes. (a) All payments made by the Borrower under this Agreement and the Notes shall be made free and clear of, and without deduction for any present or future taxes, levies, imposts, deductions, charges, or withholdings, and all liabilities with respect thereto, including any interest, additions to tax or penalties applicable thereto (other than Excluded Taxes) (all such non-excluded taxes, levies, imposts, duties, charges, fees, deductions and withholdings being hereinafter called "Taxes"). If the Borrower shall be required by Law to deduct any Taxes from or in respect of any sum payable hereunder or under any Note, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Agent and each Bank receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall timely pay the full amount deducted to the relevant tax authority or other authority in accordance with applicable Law. As used herein, the term "Excluded Taxes" shall mean, with respect to the Agent, any Bank or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, (i) taxes imposed on or measured by its overall net income (however denominated), and franchise taxes imposed on it (in lieu of net income taxes), by the jurisdiction (or any political subdivision thereof) under the Laws of which such recipient is organized or in which its principal office is located or, in the case of any Bank, in which its applicable lending office is located, (ii) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction in which the Borrower is located and (iii) in the case of a Foreign Bank, any withholding tax (including under FATCA) that is imposed on amounts payable to such Foreign Bank at the time such Foreign Bank becomes a party hereto (or designates a new lending office), except to the extent that such Foreign Bank (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts from the Borrower with respect to such withholding tax pursuant to this Section 2.12.

(b) In addition, the Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges, or similar levies which arise from any payment made hereunder, under the Notes or under any other Loan Document or from

the execution, delivery, or registration of, or otherwise with respect to, this Agreement, any Note or any other Loan Document (hereinafter referred to as "Other Taxes").

(c) The Borrower shall indemnify the Agent and each Bank for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this subsection) paid by the Agent or any Bank and any liability (including penalties, interest, and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. This indemnification shall be made within 30 days from the date the Agent or a Bank makes written demand therefor accompanied by a certificate explaining and detailing any such Taxes or Other Taxes paid by the Agent or such Bank which shall be conclusive in the absence of demonstrable error.

(d) Within 30 days after the date of any payment of any Taxes or Other Taxes by the Borrower, if available, the Borrower shall furnish to the Agent and each Bank, at its address referred to herein, the original or a certified copy of a receipt evidencing payment thereof.

(e) If as a result of a payment by the Borrower of Taxes or Other Taxes pursuant to subsections 2.12(a), (b) or (c) the Agent or a Bank receives a tax benefit or tax savings such as by receiving a credit against, refund of, or reduction in Taxes or Other Taxes which the Agent or such Bank would not have received but for the payment by the Borrower of such Taxes or Other Taxes, then the Agent or such Bank shall promptly pay to the Borrower the amount of such credit, refund, reduction or any other similar item. Without prejudice to the survival of any other agreement of the Borrower hereunder, the agreements and obligations of the Borrower contained in subsections 2.12(a) through (d) shall survive the payment in full of principal and interest hereunder and under any instrument delivered hereunder.

(f) Each Foreign Bank agrees that it will deliver to the Borrower and the Agent on or prior to the Closing Date in the case of each initial Bank and on or prior to the effective date of the Assignment and Acceptance pursuant to which it becomes a Bank in the case of each other Bank and on or prior to the date on which any such form or certification expires or becomes obsolete, after the occurrence of any event requiring a change in the most recent form or certification previously delivered by it pursuant to this subsection (f), and from time to time, if requested by the Borrower or the Agent, two completed originals of each of the following, as applicable; (A) Forms W-8ECI (claiming exemption from U.S. withholding tax because the income is effectively connected with a U.S. trade or business), W-8BEN or W-8BEN-E, as applicable, (claiming exemption from, or a reduction of, U.S. withholding tax under an income tax treaty) and/or W-8IMY (together with appropriate forms, certifications and supporting statements) or any successor forms, (B) in the case of a Foreign Bank claiming exemption under Sections 871(h) or 881(c) of the Code, Form W-8BEN or W-8BEN-E, as applicable (claiming exemption from U.S. withholding tax under the portfolio interest exemption) or any successor form and a certificate in form and substance acceptable to the Borrower and the Agent. Such Bank shall certify, in the case of a Form W-8ECI, W-8BEN or W-8BEN-E, as applicable or W-8IMY, that it is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes. If a payment made to a Foreign Bank would be subject to U.S. Federal withholding tax imposed by

FATCA if such Bank were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Sections 1471(b) or 1472(b) of the Code, as applicable), such Bank shall deliver to the Borrower and the Agent, at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Agent, such documentation prescribed by applicable law (including any notice described in Section 1471(b)(3)(C)(i) of the Code) and such additional documentation reasonably requested by the Borrower or the Agent as may be necessary for the Borrower or the Agent, as the case may be, to comply with their obligations under FATCA, to determine whether such Bank has or has not complied with such Bank's obligations under FATCA or to determine the amount to deduct and withhold from such payment. If any form provided by a Foreign Bank at the time such Bank first becomes a party to this Agreement indicates a United States interest withholding rate in excess of zero, withholding tax at such rate shall be considered excluded from "Taxes" as defined in subsection 2.12(a). Each Bank shall deliver to the Borrower and the Agent, with respect to Taxes imposed by any Governmental Authority other than the United States of America, similar forms, if available (or the information that would be contained in similar forms if such forms were available), to the forms which are required to be provided under this subsection with respect to Taxes of the United States of America.

(g) Notwithstanding the foregoing subsections 2.12(a) through (e), the Borrower shall not be required to pay any additional amounts to any Bank in respect of United States withholding or backup withholding tax pursuant to such subsections if (i) the obligation to pay such additional amounts would not have arisen but for a failure by such Bank to comply with the requirements of subsection 2.12(f) (other than by reason of a change in Law) or (ii) such Bank shall not have furnished the Borrower with such forms and documentation described in subsection 2.12(f) and shall not have taken such other steps as reasonably may be available to it under applicable tax laws and any applicable tax treaty or convention to obtain an exemption from, or reduction (to the lowest applicable rate) of, such United States withholding tax.

2.13 Indemnity. The Borrower agrees to indemnify each Bank and to hold each Bank harmless from any loss or expense which such Bank may sustain or incur as a consequence of (a) default by the Borrower in payment when due of the principal amount of or interest on any Eurodollar Loan, (b) default by the Borrower in making a borrowing of, conversion into or continuation of Eurodollar Loans after the Borrower has given a notice requesting the same in accordance with the provisions of this Agreement, (c) default by the Borrower in making any prepayment after the Borrower has given a notice thereof in accordance with the provisions of this Agreement or (d) the making of a prepayment of Eurodollar Loans on a day which is not the last day of an Interest Period with respect thereto, including, without limitation, in each case, any such loss or expense arising from the reemployment of funds obtained by it or from fees payable to terminate the deposits from which such funds were obtained. This covenant shall survive the termination of this Agreement and the payment of the Notes and all other amounts payable hereunder. For the purpose of calculation of all amounts payable to a Bank under this Section, each Bank shall be deemed to have actually funded its relevant Eurodollar Loan or Swing Line Loan through the purchase of a deposit bearing interest at the Eurodollar Rate or the applicable rate on such Swing Line Loan, as the case may be, in an amount equal to the amount of that Eurodollar Loan or Swing Line Loan, as the case may be, and having a maturity comparable to the relevant Interest Period or applicable period for such Eurodollar Loan or Swing Line Loan; provided, however, that each Bank may fund each of its Eurodollar Loans and the Swing Line

Bank may fund its Swing Line Loans in any manner it sees fit, and the foregoing assumptions shall be utilized only for the calculation of amounts payable under this Section.

2.14 Pro Rata Treatment, etc. Except as required under Sections 2.2 and 2.10, each Borrowing, each payment or prepayment of principal of any Borrowing, each payment of interest on the Loans, each reduction of the Commitments, each refinancing of any Borrowing with a Borrowing of any Type and each conversion of Loans, shall be made pro rata among the Banks in accordance with their respective Commitment Percentages. Each Bank agrees that in computing such Bank's portion of any Borrowing to be made hereunder, the Agent may, in its discretion, round each Bank's percentage of such Borrowing to the next higher or lower whole dollar amount.

2.15 Payments. (a) The Borrower shall make each payment (including principal of or interest on any Loan or any Fees or other amounts) hereunder not later than 12:00 (noon), Philadelphia time, on the date when due in Dollars to the Agent at its offices at 1600 Market Street, Philadelphia, Pennsylvania, or at such other place as may be designated by the Agent, in immediately available funds.

(b) Whenever any payment (including principal of or interest on any Loan or any Fees or other amounts) hereunder shall become due, or otherwise would occur, on a day that is not a Business Day, such payment may be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of interest or Fees, if applicable.

2.16 Conversion and Continuation Options. The Borrower shall have the right at any time upon prior irrevocable notice to the Agent (i) not later than 11:00 a.m., Philadelphia time, on the Business Day of conversion, to convert any Eurodollar Loan to a Base Rate Loan, (ii) not later than 11:00 a.m., Philadelphia time, three Business Days prior to conversion or continuation, (y) to convert any Base Rate Loan into a Eurodollar Loan, or (z) to continue any Eurodollar Loan as a Eurodollar Loan for any additional Interest Period, and (iii) not later than 11:00 a.m., Philadelphia time, three Business Days prior to conversion, to convert the Interest Period with respect to any Eurodollar Loan to another permissible Interest Period, subject in each case to the following:

(a) a Eurodollar Loan may not be converted at a time other than the last day of the Interest Period applicable thereto;

(b) any portion of a Revolving Credit Loan maturing or required to be repaid in less than one month may not be converted into or continued as a Eurodollar Loan;

(c) no Eurodollar Loan may be continued as such and no Base Rate Loan may be converted to a Eurodollar Loan when any Default or Event of Default has occurred and is continuing;

(d) any portion of a Eurodollar Loan that cannot be converted into or continued as a Eurodollar Loan by reason of paragraph 2.16(b) or 2.16(c) automatically shall be converted at the end of the Interest Period in effect for such Revolving Credit Loan to a Base Rate Loan;

(e) if by the third Business Day prior to the last day of any Interest Period for Eurodollar Loans, the Borrower has failed to give notice of conversion or continuation as described in this subsection, the Agent shall give notice thereof to the Banks and such Revolving Credit Loans shall be automatically converted to Base Rate Loans on the last day of such then expiring Interest Period; and

(f) each request by the Borrower to convert or continue a Revolving Credit Loan shall constitute a representation and warranty that each of the representations and warranties made by the Borrower herein is true and correct in all material respects on and as of such date as if made on and as of such date.

Accrued interest on a Revolving Credit Loan (or portion thereof) being converted shall be paid by the Borrower at the time of conversion.

2.17 Defaulting Banks. Notwithstanding any provision of this Agreement to the contrary, if any Bank becomes a Defaulting Bank, then the following provisions shall apply for so long as such Bank is a Defaulting Bank:

(a) such Defaulting Bank, or the Exposure and Commitment Percentage of such Defaulting Bank, as applicable, shall not be included in determining whether all Banks or Required Banks have taken or may take any action hereunder (including any consent to any amendment or waiver pursuant to Section 9.1), provided that any waiver, amendment or modification requiring the consent of all Banks or each affected Bank which affects such Defaulting Bank differently than other affected Banks shall require the consent of such Defaulting Bank;

(b) if any outstanding Swing Line Loans exist at the time a Bank becomes a Defaulting Bank then:

(i) such Defaulting Bank's pro rata portion of such Swing Line Loans shall be reallocated among the Non-Defaulting Banks in accordance with their respective Adjusted Commitment Percentages but only to the extent (x) the sum of (A) the Revolving Credit Loans of all Non-Defaulting Banks plus (B) all Non-Defaulting Banks' Adjusted Commitment Percentages of the aggregate principal amount of all outstanding Swing Line Loans then outstanding does not exceed the aggregate amount of the Commitments of all Non-Defaulting Banks and (y) the conditions set forth in Section 4.2 are satisfied at such time;

(ii) to the extent that all or any part of such Defaulting Bank's pro rata portion of Swing Line Loans cannot be reallocated pursuant to Section 2.17(b)(i), then the Borrower (A) shall, within 15 days following notice from the Agent until such Defaulting Bank ceases to be a Defaulting Bank under this Agreement, establish and, thereafter, maintain a special collateral account (the "Swing Line Collateral Account") at the Agent's office at the address specified pursuant to Section 9.2, in the name of the Borrower but under the sole dominion and control of the Agent, (B) grant to the Agent for the benefit of the Banks, solely as security for repayment of the unallocated portion of such Defaulting Bank's Commitment Percentage of outstanding Swing Line Loans, a security interest in and to the Swing Line Collateral Account and any funds that may thereafter be deposited therein and (C) shall maintain

in the Swing Line Collateral Account an amount equal to the unallocated portion of such Defaulting Bank's Commitment Percentage of outstanding Swing Line Loans; and

(iii) the Swing Line Bank shall not be required to, but in its sole discretion may from time to time elect to, fund any Swing Line Loan, unless it is satisfied in its sole discretion that the related exposure will be 100% covered by the Non-Defaulting Banks and/or cash collateral will be provided by the Borrower in accordance with Section 2.17(b)(ii).

(iv) any amount payable to a Defaulting Bank hereunder (whether on account of principal, interest, fees or otherwise) shall, in lieu of being distributed to such Defaulting Bank, be retained by the Agent in a segregated account and, subject to any applicable requirements of law, be applied at such time or times as may be determined by the Agent (i) first, to the payment of any amounts owing by such Defaulting Bank to the Agent hereunder, (ii) second, pro rata, to the payment of any amounts owing by such Defaulting Bank to the Swing Line Bank hereunder, (iii) third, to the funding of any Revolving Credit Loan or the funding of any participating interest in any Swing Line Loan or in respect of which such Defaulting Bank has failed to fund its portion thereof as required by this Agreement, as determined by the Agent, (iv) fourth, if so determined by the Agent and the Borrower, held in such account as cash collateral for future funding obligations of the Defaulting Bank under this Agreement, (v) fifth, pro rata, to the payment of any amounts owing to the Borrower or the Banks as a result of any judgment of a court of competent jurisdiction obtained by the Borrower or any Bank against such Defaulting Bank as a result of such Defaulting Bank's breach of its obligations under this Agreement; provided that, if an Event of Default shall have occurred and be continuing, any payments that would be made to the Borrower shall be applied by the Agent to the Obligations in such order as the Agent shall elect and (vi) sixth, to such Defaulting Bank or as otherwise directed by a court of competent jurisdiction; provided that if such payment is (x) a payment of the principal amount of any Revolving Credit Loans for which a Defaulting Bank has not fully funded its participation obligations and (y) made at a time when the conditions set forth in Section 4.2 are satisfied, the remaining portion of such payment shall be applied solely to prepay the Revolving Credit Loans of, and reimbursement obligations owed to, all Non-Defaulting Banks pro rata prior to being applied to the prepayment of any Revolving Credit Loans of, or reimbursement obligations owed to, any Defaulting Bank.

(v) In the event that the Borrower, the Agent and the Swing Line Bank each agrees that a Defaulting Bank has adequately remedied all matters that caused such Bank to be a Defaulting Bank, then the Swing Line Loans of the Banks shall be readjusted to reflect the inclusion of such Bank's Commitment Percentage and on such date such Bank shall purchase at par such of the Revolving Credit Loans of the other Banks (other than Swing Line Loans) as the Agent shall determine may be necessary in order for such Bank to hold such Revolving Credit Loans in accordance with its Commitment Percentage, subject to the provisions of Section 2.13.

SECTION 3. REPRESENTATIONS AND WARRANTIES

To induce the Banks to enter into this Agreement, and to make the Loans, the Borrower hereby represents and warrants to the Agent and each Bank that:

3.1 Financial Condition. (a) The audited consolidated balance sheet of the Borrower and its Subsidiaries as at December 31, 2015 and the related consolidated statements of income and of cash flows for the fiscal year ended on such date, and the consolidated balance sheet as at June 30, 2016 and the statements of income and cash flow of the Borrower and its Subsidiaries for the six month period ended June 30, 2016, copies of all of which have heretofore been furnished to each Bank, present fairly the consolidated financial condition of the Borrower as at such dates, and the consolidated results of its operations and its consolidated cash flows for the periods covered thereby. All such financial statements, including the related schedules and notes thereto, have been prepared in accordance with GAAP applied consistently throughout the periods involved. Neither the Borrower nor any of its Subsidiaries had, at the date of the most recent balance sheet referred to above, any material Contingent Obligation, liability for taxes, or any long-term lease or unusual forward or long-term commitment, including, without limitation, any interest rate or foreign currency swap or exchange transaction, which is required by GAAP to be but is not reflected in the foregoing statements or in the notes thereto.

(b) (i) As of the Closing Date and after giving effect to this Agreement and any Loans to be made on the Closing Date, the Borrower is Solvent.

(ii) The Borrower does not intend to incur debts beyond its ability to pay such debts as they mature, taking into account the timing of and amounts of cash to be received by it and the timing of the amounts of cash to be payable on or in respect of its Debt.

3.2 No Adverse Change. Since December 31, 2015, there has been no development or event which has had a Material Adverse Effect.

3.3 Existence; Compliance with Law. The Borrower (a) is duly organized, and subsisting under the laws of the jurisdiction of its incorporation, (b) has the corporate power and authority to own and operate its property, to lease the property it operates as lessee and to conduct the business in which it is currently engaged, (c) is duly qualified to transact business in each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification, except to the extent that the failure to be so qualified would not, in the aggregate, have a Material Adverse Effect and (d) is in compliance with all Requirements of Law the non-compliance with which would have a Material Adverse Effect.

3.4 Corporate Power; Authorization; Enforceable Obligations. The Borrower has the corporate power, authority, and legal right, to make, deliver and perform this Agreement, the Notes and the other Loan Documents to which it is a party and to borrow hereunder and has taken all necessary corporate action to authorize the borrowings on the terms and conditions of this Agreement and the Notes and to authorize the execution, delivery and performance of this Agreement, the Notes and the other Loan Documents to which it is a party. No consent or authorization of, filing with or other act by or in respect of, any Governmental Authority or any other Person (including stockholders and creditors of the Borrower) is required in connection with the borrowings hereunder or with the execution, delivery, performance, validity or enforceability of this Agreement, the Notes or the other Loan Documents. This Agreement has been, and each Note and other Loan Document will be, duly executed and delivered on behalf of the Borrower. This Agreement constitutes, and each Note and other Loan Document when executed and delivered will constitute, a legal, valid and binding obligation of the Borrower

enforceable against the Borrower in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law).

3.5 No Legal Bar. The execution, delivery and performance of this Agreement, the Notes and the other Loan Documents by the Borrower, the borrowings hereunder and the use of the proceeds thereof will not violate any Requirement of Law or Contractual Obligation of the Borrower or of any of the Subsidiaries and will not result in, or require, the creation or imposition of any Lien on any of its or their respective properties or revenues pursuant to any such Requirement of Law or Contractual Obligation.

3.6 No Material Litigation. Except as set forth on Schedule 3.6, no litigation, investigation or proceeding of or before any arbitrator or Governmental Authority is pending or, to the knowledge of the Borrower, threatened against the Borrower or against any of the properties or revenues of the Borrower (a) with respect to this Agreement, the Notes or the other Loan Documents or any of the transactions contemplated hereby, or (b) as to which there is a reasonable likelihood of an adverse determination and which, if adversely determined, would have a Material Adverse Effect.

3.7 No Default. The Borrower is not in default under or with respect to any of its Contractual Obligations, including without limitation, those under the Indenture in any respect which would have a Material Adverse Effect. No Event of Default has occurred and is continuing.

3.8 Taxes. The Borrower has filed or caused to be filed all tax returns which are required to be filed (or has obtained authorized extensions for such filings) and has paid all taxes shown to be due and payable on said returns or on any assessments made against it or any of its property and all other taxes, fees or other charges imposed on it or any of its property by any Governmental Authority (other than any the amount or validity of which are currently being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with GAAP have been provided on the books of the Borrower, as the case may be); no material tax Lien has been filed against the Borrower, and, to the knowledge of the Borrower, no claim is being asserted, with respect to any such tax, fee or other charges.

3.9 Federal Regulations. No part of the proceeds of any Loans will be used for "purchasing" or "carrying" any "margin stock" within the respective meanings of each of the quoted terms under Regulation U or for any purpose which violates the provisions of Regulation U. If requested by any Bank or the Agent, the Borrower will furnish to the Agent and each Bank a statement to the foregoing effect in conformity with the requirements of FR Form U-l referred to in said Regulation U. No part of the proceeds of the Loans hereunder will be used for any purpose which violates, or which is inconsistent with, the provisions of Regulation X.

3.10 ERISA.

(a) Each Plan has complied in all respects with the applicable provisions of the ERISA and the Code and has been administered in accordance with its terms,

except to the extent that failure(s) to so comply, or to so administer the Plan, in the aggregate, has not resulted in and could not reasonably be expected to result in a Material Adverse Effect. No Reportable Event has occurred with respect to any Single Employer Plan which presents a material risk of termination of the Plan by the PBGC. There have been no "prohibited transactions" (as defined in Section 406 of ERISA or Section 4975 of the Code) in connection with which the Borrower or any Commonly Controlled Entity could be subject to any Material civil penalty under 502(i) of ERISA or any Material excise tax under Section 4975 of the Code.

(b) With respect to each Single Employer Plan maintained by the Borrower or a Commonly Controlled Entity, the adjusted funding target attainment percentage (within the meaning of Section 436(j)(2) of the Code) of each such Single Employer Plan, as of the close of the most recent plan year for such Plan as certified by the Plan's actuary, is not less than eighty percent (80%).

(c) Neither the Borrower nor any Commonly Controlled Entity has incurred any withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under Section 4201 or 4204 of ERISA in respect of Multiemployer Plans that individually or in the aggregate are Material. To the best of Borrower's knowledge, no Multiemployer Plan is in Reorganization as defined in Section 4241 of ERISA or is Insolvent.

(d) The expected post-retirement benefit obligation (determined as of the last day of the Company's most recently ended fiscal year in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification 715-60 (formerly FASB Statement No. 106), without regard to liabilities attributable to continuation coverage mandated by Section 4980B of the Code) of the Company and its Subsidiaries would not reasonably be expected to have a Material Adverse Effect.

3.11 Investment Company Act. Except as set forth on Schedule 3.11, the Borrower is not (a) an "investment company", or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended or (b) subject to any other federal or state law or regulation which purports to restrict or regulate its ability to borrow money.

3.12 Purpose of Loans. The proceeds of the Loans shall be used by the Borrower for refinancing existing indebtedness of the Borrower and the Borrower's general working capital purposes including the financing of Permitted Acquisitions.

3.13 Environmental Matters. To the best knowledge of the Borrower, except as may be disclosed on Schedule 3.13 and except to the extent that the aggregate cost of any remediation or other expense to the Borrower as a consequence of the failure of any of the following representations to be true and correct does not exceed $1,000,000, each of the representations and warranties set forth in paragraphs (a) through (d) of this subsection is true and correct with respect to each parcel of real property owned or operated by the Borrower:

(a) the Borrower does not have any knowledge of any claim nor has it received any written notice of any claim, and no proceeding has been instituted of which it has received written notice, raising any claim against the Borrower or any of its real properties now

or formerly owned, leased or operated by it, or other assets, alleging damage to the environment or any violation of or liability arising under any Environmental Laws, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect;

(b) the Borrower does not have knowledge of any facts which would give rise to any claim, public or private, for violation of or liability arising under Environmental Laws or damage to the environment emanating from, occurring on or in any way related to real properties or to operation of other assets now or formerly owned, leased or operated by it or for its use, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect;

(c) the Borrower has not stored any Materials of Environment Concern on real properties now or formerly owned, leased or operated by it, and has not disposed of or released any Materials of Environment Concern in a manner that may give rise to liability under any Environmental Laws and in any manner that could reasonably be expected to result in a Material Adverse Effect; and

(d) all buildings on all real properties now owned, leased or operated by the Borrower are and have been constructed, maintained and operated in a manner that will not give rise to liability under applicable Environmental Laws, except where failure to comply could not reasonably be expected to result in a Material Adverse Effect.

3.14 Ownership of the Borrower. As of the Closing Date the Borrower is a wholly-owned Subsidiary of the Parent Company.

3.15 Patents, Trademarks, etc. The Borrower has obtained and holds in full force and effect all patents, trademarks, servicemarks, trade names, copyrights or licenses therefor and other such rights, free from burdensome restrictions, which are necessary for the operation of its business as presently conducted. To the Borrower's best knowledge, no material product, process, method, substance, part or other material presently sold by or employed by the Borrower in connection with such business infringes any patent, trademark, service mark, trade name, copyright, license or other right owned by any other Person so as to have a Material Adverse Effect. There is not pending or, to the Borrower's knowledge, threatened any claim or litigation against or affecting the Borrower contesting its right to sell or use any such product, process, method, substance, part or other material.

3.16 Ownership of Property. The Borrower has good and marketable fee simple title to or valid leasehold interests in all real property owned or leased by the Borrower (except in the case of certain properties not material to its business as to which its title was obtained by quit-claim or special warranty deed), and good title to all of its personal property subject to no Lien of any kind except Liens permitted hereby. The Borrower enjoys peaceful and undisturbed possession under all of its respective material leases.

3.17 Licenses, etc. The Borrower has obtained and holds in full force and effect, all franchises, licenses, permits, certificates, authorizations, qualifications, easements, rights of way and other rights, consents and approvals which are necessary for the operation of

its business as presently conducted, except where the failure to obtain and hold such rights, consents or approvals could not reasonably be expected to have a Material Adverse Effect.

3.18 Labor Matters. The Borrower has not, within the last five years, suffered any strikes, walkouts, work stoppages or other labor difficulty involving a material number of employees which in any case had a Material Adverse Effect, and to the best of the Borrower's knowledge, there are no such events which could reasonably be expected to have a Material Adverse Effect now threatened.

3.19 Partnerships. Except as disclosed on Schedule 3.19, as of the Closing Date, the Borrower is not a partner in any partnership or in any joint venture.

3.20 No Material Misstatements. To the best of the Borrower's knowledge, no information, report, financial statement, exhibit or schedule furnished by or on behalf of the Borrower to the Agent or any Bank in connection with the negotiation of this Agreement or any Note or other Loan Document or included therein contains any misstatement of fact, or omitted or omits to state any fact necessary to make the statements therein not misleading, where such misstatement or omission would in the Borrower's judgment be material to the interests of the Banks with respect to the Borrower's performance of its obligations hereunder.

3.21 Anti-Money Laundering/International Trade Law Compliance. No Covered Entity is a Sanctioned Person. No Covered Entity, either in its own right or through any third party, (a) has any of its assets in a Sanctioned Country or in the possession, custody or control of a Sanctioned Person in violation of any Anti-Terrorism Law; (b) does business in or with, or derives any of its income from investments in or transactions with, any Sanctioned Country or Sanctioned Person in violation of any Anti-Terrorism Law; or (c) engages in any dealings or transactions prohibited by any Anti-Terrorism Law.

3.22 EEA Financial Institutions.

The Borrower is not an EEA Financial Institution.

All of the foregoing representations and warranties shall survive the execution and delivery of the Notes and the making by the Banks of the Loans hereunder.

SECTION 4. CONDITIONS PRECEDENT; CLOSING

4.1 Conditions to Closing. The agreement of each Bank to enter into this Agreement and make its initial Loan hereunder is subject to the satisfaction, immediately prior to or concurrently with such Loans, of the following conditions precedent:

(a) Loan Documents. The Agent shall have received (i) this Agreement, executed and delivered by a duly authorized officer of the Borrower, with a counterpart for each Bank, (ii) for the account of each Bank, a Revolving Credit Note conforming to the requirements hereof and executed by a duly authorized officer of the Borrower

and (iii) for the account of the Swing Line Bank, the Swing Line Note conforming to the requirements hereof and executed by a duly authorized officer of the Borrower.

(b) Corporate Proceedings of the Borrower. The Agent shall have received a copy of the resolutions or other corporate proceedings or action, in form and substance satisfactory to the Agent, taken on behalf of the Borrower authorizing (i) the execution, delivery and performance of this Agreement, the Notes and the other Loan Documents to which it is a party, and (ii) the borrowings contemplated hereunder, certified by a Responsible Officer of the Borrower as of the Closing Date, which certificate shall state that such resolutions, or other proceedings or action thereby certified have not been amended, modified, revoked or rescinded and shall be in form and substance satisfactory to the Agent.

(c) Representations and Warranties True; No Default. The representations and warranties of the Borrower contained in Section 3 hereof shall be true and accurate on and as of the Closing Date in all material respects with the same effect as though such representations and warranties had been made on and as of such date (except representations and warranties which relate solely to an earlier date or time, which representations and warranties shall be true and correct on and as of the specific dates or times referred to therein), and the Borrower shall have performed and complied with all covenants and conditions hereof; and no Event of Default or Default under this Agreement shall have occurred and be continuing or shall exist.

(d) Corporate Documents. The Agent shall have received, with a counterpart for each Bank, true and complete copies of (i) the articles of incorporation and bylaws of the Borrower, certified as of the Closing Date as complete and correct copies thereof by a Responsible Officer of the Borrower; and (ii) good standing certificates issued by the Secretaries of State (or the equivalent thereof) of each state in which the Borrower has been formed or is required to be qualified to transact business no earlier than thirty days prior to the Closing Date.

(e) Incumbency. The Agent shall have received a written certificate dated the Closing Date by a Responsible Officer of the Borrower as to the names and signatures of the officers of the Borrower authorized to sign this Agreement and the other Loan Documents. The Agent may conclusively rely on such certificate until it shall receive a further certificate by a Responsible Officer of the Borrower amending such prior certificate.

(f) Intentionally Omitted.

(g) Fees. The Borrower shall have paid or caused to be paid to the Agent (i) all Fees then due hereunder and (ii) all other fees and expenses due and payable hereunder on or before the Closing Date (if then invoiced), including without limitation the reasonable fees and expenses of counsel to the Agent.

(h) Legal Opinion. The Agent shall have received, with a counterpart for each Bank, the executed legal opinion of the General Counsel of the Borrower, addressed to the Banks and satisfactory in form and substance to the Agent and its counsel covering such matters incident to the transactions contemplated by this Agreement as the Agent may

reasonably require. The Borrower hereby directs such counsel to deliver such opinion, upon which the Banks and the Agent may rely.

(i) No Material Adverse Change. There shall be no material adverse change in the business, operations, Property or financial or other condition of the Borrower nor any material change in the management of the Borrower or an event which would cause or constitute a Material Adverse Effect; and there shall be delivered to the Agent for the benefit of each Bank a certificate dated the Closing Date and signed on behalf of the Borrower by a Responsible Officer to each such effect.

(j) No Litigation. No action, proceeding, investigation, regulation or legislation shall have been instituted, or to the knowledge of the Borrower, threatened or proposed before any court, governmental agency or legislative body to enjoin, restrain or prohibit, or to obtain damages in respect of this Agreement or the consummation of the transactions contemplated hereby or which, in the Agent's sole discretion, would make it inadvisable to consummate the transactions contemplated by this Agreement.

(k) Evidence of Insurance. The Borrower shall have provided to each of the Banks copies of the evidence of insurance required by subsection 5.5(b).

(l) Intentionally Omitted.

(m) Evidence of Regulatory Approval. The Borrower shall have provided to the Agent a copy of each and every authorization, permit, consent, and approval of and other actions by, and notice to and filing with, every Governmental Authority which is required to be obtained or made by the Borrower for the due execution, delivery and performance of this Agreement and the other Loan Documents, if any.

(n) Additional Documents. The Agent shall have received such additional documents, certificates and information as the Agent may require pursuant to the hereof or as the Agent may otherwise reasonably request.

4.2 Conditions to Each Loan. The agreement of each Bank to make any Loan requested to be made by it on any date (including, without limitation, the first such Loan hereunder) is subject to the satisfaction of the following conditions precedent:

(a) Representations and Warranties. Each of the representations and warranties made by the Borrower herein or which are contained in any certificate, document or financial or other statement furnished at any time under or in connection herewith or therewith shall be true and correct in all material respects on and as of such date as if made on and as of such date; provided, however, that for purposes of the representations in Section 3.1 hereof, the annual and quarterly financial information referred to in such Section shall be deemed to be the most recent such information furnished to each Bank.

(b) No Default. No Default or Event of Default shall have occurred and be continuing on such date or after giving effect to the Loans requested to be made on such date.

(c) No Contravention of Law. The making of the Loans shall not contravene any Requirement of Law applicable to the Borrower or any of the Banks.

Each borrowing by the Borrower hereunder shall constitute a representation and warranty by the Borrower as of the date of such Loan that the conditions contained in this Section 4.2 have been satisfied.

4.3 Closing. The closing (the "Closing") of the transactions contemplated hereby shall take place at the offices of Ballard Spahr LLP, commencing at 10:00 a.m., Philadelphia time, on November 17, 2016 or such other place or date as to which the Agent, the Banks and the Borrower shall agree. The date on which the Closing shall be completed is referred to herein as the "Closing Date".

4.4 Transitional Arrangements.

(a) On the Closing Date, without the necessity of any further action by any party, the outstanding principal amount of the "Revolving Credit Loans" (as defined in the Existing Credit Agreement) shall be converted and continued as Revolving Credit Loans hereunder as if made by the Banks under and pursuant to this Agreement in accordance with their respective Commitment Percentages and the Banks hereunder shall make such additional Revolving Credit Loans and receive such repayments, as the case may be, if and to the extent necessary to result in each Bank holding its respective Commitment Percentage of the outstanding Revolving Credit Loans as of the date hereof.

(b) This Agreement amends and restates the Existing Credit Agreement in its entirety, and is not intended as and shall not be deemed to constitute a novation or discharge of the obligations evidenced by, or any transactions consummated under, the Existing Credit Agreement or the other Loan Documents (as defined in the Existing Credit Agreement), all of which remain in full force and effect as amended and restated by this Agreement and the other Loan Documents. Notwithstanding the amendment and restatement of the Existing Credit Agreement by this Agreement, the Borrower shall continue to be liable to the Agent and those Banks party to the Existing Credit Agreement with respect to agreements on the part of the Borrower under the Existing Credit Agreement to pay all principal, interest, fees and other amounts that have accrued on or before the Closing Date (and have not been paid on or before such date) and to indemnify and hold harmless the Agent and such Banks from and against all claims, demands, liabilities, damages, losses, costs, charges and expenses to which the Agent and such Banks may be subject arising in connection with the Existing Credit Agreement and as to which the Borrower has agreed under the Existing Credit Agreement to indemnify and hold harmless the Agent and such Banks.

SECTION 5. AFFIRMATIVE COVENANTS

The Borrower hereby agrees that, so long as the Commitments remain in effect, any Note remains outstanding and unpaid, or any other amount is owing to any Bank or the Agent hereunder, the Borrower shall:

5.1 Financial Statements. Furnish to each Bank (i) within 60 days after the end of each of the first three fiscal quarters of each fiscal year a consolidated balance sheet of the Borrower and its Subsidiaries as of the end of each such fiscal quarter and statements of income for the period from the beginning of such fiscal year to the end of such fiscal quarter, and (ii) within 120 days after the end of each fiscal year a consolidated balance sheet of the Borrower and its Subsidiaries as of the end of each fiscal year and statements of income, statements of retained earnings and cash flow for such fiscal year. All financial statements will be prepared in accordance with GAAP applied on a basis consistently maintained throughout the period involved and with the prior periods, such annual financial statements to be certified by independent certified public accountants selected by the Borrower and reasonably acceptable to the Agent, without any exception or qualification arising out of the restricted or limited nature of the examination made by such accountants.

5.2 Certificates; Other Information. Furnish to each Bank:

(a) concurrently with the delivery of the financial statements referred to in subsection 5.1, a certificate on behalf of the Borrower executed by a Responsible Officer, (i) showing in detail the calculations supporting such statements in respect of Section 6.1; and (ii) stating that, to the best of his or her knowledge, the Borrower during such period has kept, observed, performed and fulfilled each and every covenant and condition contained in this Agreement and in the Notes and the other Loan Documents applicable to it and that he or she obtained no knowledge of any Default or Event of Default except as specifically indicated;

(b) on or prior to February 15 of each fiscal year, a budgeted balance sheet, income statement and statement of cash flow for the current fiscal year; and

(c) promptly, such additional financial and other information as any Bank or the Agent may from time to time reasonably request.

5.3 Payment of Obligations. Pay, discharge or otherwise satisfy at or before maturity or before they become delinquent, as the case may be, all its obligations of whatever nature, except (x) in the case of indebtedness other than that described in subsection 7.1(f), when the amount or validity thereof is currently being contested in good faith by appropriate proceedings and reserves in conformity with GAAP with respect thereto have been provided on the books of the Borrower or (y) where the failure so to pay such indebtedness is in the normal course of the Borrower's business as now conducted and would not have a Material Adverse Effect.

5.4 Conduct of Business and Maintenance of Existence. Subject to Section 6.4 hereof, continue to engage in business of the same general type as now conducted by it and, except to the extent that failure to do so would not have a Material Adverse Effect, preserve, renew and keep in full force and effect its corporate existence and take all reasonable action to maintain all rights, privileges, trademarks, trade names, licenses, franchises and other authorizations necessary or desirable in the normal conduct of its business; comply with all Contractual Obligations and Requirements of Law except to the extent that failure to comply therewith would not reasonably be expected to have, in the aggregate, a Material Adverse Effect.

5.5 Maintenance of Property; Insurance. (a) Maintain in good repair, working order and condition (ordinary wear and tear excepted) in accordance with the general practice of other businesses of similar character and size, all of those properties material or necessary to its business, and from time to time make or cause to be made all appropriate repairs, renewals or replacements thereof; provided, however, that this Section shall not prevent the Borrower from discontinuing the operation and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business and the Borrower has concluded that such discontinuance would not, individually or in the aggregate, have a Material Adverse Effect on its business, operations, affairs, financial condition, property or assets, taken as a whole.

(b) Insure its properties and assets against loss or damage by fire and such other insurable hazards as such assets are commonly insured (including fire, extended coverage, property damage, worker's compensation, public liability and business interruption insurance) and against other risks (including errors and omissions) in such amounts as similar properties and assets are insured by prudent companies in similar circumstances carrying on similar businesses, and with reputable and financially sound insurers, including self-insurance to the extent customary. The Borrower shall deliver at the request of the Agent from time to time a summary schedule indicating all insurance then in force with respect to the Borrower.

5.6 Inspection of Property; Books and Records; Discussions. (a) Permit any of the officers or authorized employees or representatives of the Agent or any of the Banks to visit and inspect during normal business hours any of its properties and to examine and make excerpts from its books and records and discuss its business affairs, finances and accounts (including those of its Affiliates) with its officers, all in such detail and at such times and as often as any of the Banks may reasonably request, provided that each Bank shall provide the Borrower and the Agent with reasonable notice prior to any visit or inspection. In the event Required Banks desire to conduct an audit of the Borrower (to which the Borrower hereby consents), such Banks shall make a reasonable effort to conduct such audit contemporaneously with any audit to be performed by the Agent.

(b) Maintain and keep proper books of record and account which enable the Borrower and the Parent Company to issue financial statements in accordance with GAAP and as otherwise required by applicable Requirements of Law, and in which full, true and correct entries shall be made in all material respects of all its dealings and business and financial affairs.

5.7 Notices. Promptly, upon the Borrower becoming aware, give notice to the Agent and each Bank of:

(a) the occurrence of any Default or Event of Default;

(b) any (i) default or event of default under any Contractual Obligation of the Borrower, including, without limitation, the Indenture, or (ii) litigation, investigation or proceeding which may exist at any time between the Borrower and any Governmental Authority, which in either case, if not cured or if adversely determined, as the case may be, would have a Material Adverse Effect;

(c) any litigation or proceeding which, if adversely determined, would have a Material Adverse Effect;

(d) the following events, as soon as possible and in any event within 30 days after the Borrower knows or has reason to know thereof: (i) the occurrence of any Reportable Event with respect to any Single Employer Plan which presents a material risk of termination of the Plan by the PBGC, (ii) any withdrawal from, or the termination, Reorganization or Insolvency of any Multiemployer Plan, (iii) the adjusted funding target attainment percentage (within the meaning of Section 436(j)(2) of the Code) with respect to any Single Employer Plan maintained by the Borrower or a Commonly Controlled Entity is certified by the Single Employer Plan's actuary to be less than eighty percent (80%) or deemed by operation of Section 436 of the Code in the absence of such certification to be less than eighty percent (80%), or (iv) the institution of proceedings or the taking of any action by the PBGC or the Borrower or any Commonly Controlled Entity or any Multiemployer Plan with respect to the termination of any Single Employer Plan in a distress termination under Section 4041(c) of ERISA or the withdrawal from or the termination, Reorganization or Insolvency, of any Multiemployer Plan;

(e) an event which has had a Material Adverse Effect; and

(f) the occurrence of a Reportable Compliance Event.

Each notice pursuant to this subsection shall be accompanied by a statement of the Borrower, executed on its behalf by a Responsible Officer, setting forth details of the occurrence referred to therein and stating what action the Borrower propose to take with respect thereto.

5.8 Environmental Laws. (a) Comply with, and require compliance by all tenants and to the extent possible, all subtenants, if any, with, all Environmental Laws and obtain and comply with and maintain, and require that all tenants and to the extent possible, all subtenants obtain and comply with and maintain, any and all licenses, approvals, registrations or permits required by Environmental Laws except to the extent that failure to so comply or obtain or maintain such documents would not have a Material Adverse Effect.

(b) Except as set forth in Schedule 3.13, comply with all lawful and binding orders and directives of all Governmental Authorities respecting Environmental Laws except to the extent that failure to so comply would not have a Material Adverse Effect.

(c) Defend, indemnify and hold harmless the Agent and the Banks, and their respective employees, agents, officers and directors, from and against any claims, demands, penalties, fines, liabilities, settlements, damages, costs and expenses of whatever kind or nature known or unknown, contingent or otherwise, arising out of, or in any way relating to the violation of, noncompliance with or liability arising under any Environmental Laws applicable to the real property owned or operated by or the operations of the Borrower, or any orders, requirements or demands of Governmental Authorities related thereto, including, without limitation, attorneys' and consultants' fees, investigation and laboratory fees, court costs and litigation expenses, except to the extent that any of the foregoing arise out of the negligence or willful misconduct of any of the foregoing enumerated parties.

5.9 Taxes. Pay when due all taxes, assessments and governmental charges imposed upon it or any of its properties or that it is required to withhold and pay over, except where contested in good faith and where adequate reserves have been set aside to the extent required under GAAP.

5.10 Covenants of the Indenture. Comply at all times with the covenants contained in the Indenture, as last supplemented by the Supplemental Indenture, without regard to any amendment of or supplement to the Indenture occurring after October 15, 2010.

5.11 Guarantees of Obligations. It is the intent of the parties hereto that all of the obligations of the Borrower hereunder shall be unconditionally guaranteed by all of its Material Subsidiaries to the maximum extent permitted under any Requirement of Law applicable to any such Material Subsidiary. Accordingly, in the event that any Material Subsidiary shall be formed, acquired or come into existence after the date hereof then the Borrower will cause such Material Subsidiary to (i) execute and deliver a Guaranty Agreement in form and substance satisfactory to the Agent pursuant to which such Material Subsidiary will become a "Guarantor" hereunder, and guarantee the obligations of the Borrower hereunder and under the Notes and other Loan Documents and (ii) deliver such proof of corporate or other action, incumbency of officers, opinions of counsel and other documents as is consistent with those delivered by the Borrower pursuant to Section 4.1 on the Closing Date or as the Agent shall have reasonably requested.

5.12 Anti-Money Laundering/International Trade Law Compliance. No Covered Entity will become a Sanctioned Person. No Covered Entity, either in its own right or through any third party, will (a) have any of its assets in a Sanctioned Country or in the possession, custody or control of a Sanctioned Person in violation of any Anti-Terrorism Law; (b) do business in or with, or derive any of its income from investments in or transactions with, any Sanctioned Country or Sanctioned Person in violation of any Anti-Terrorism Law; (c) engage in any dealings or transactions prohibited by any Anti-Terrorism Law or (d) use the Loans to fund any operations in, finance any investments or activities in, or make any payments to, a Sanctioned Country or Sanctioned Person in violation of any Anti-Terrorism Law. The funds used to repay the Loans will not be derived from any unlawful activity. Each Covered Entity shall comply with all Anti-Terrorism Laws. The Borrower shall promptly notify the Agent in writing upon the occurrence of a Reportable Compliance Event.

SECTION 6. NEGATIVE COVENANTS

The Borrower hereby agrees that, so long as the Commitments remain in effect, any Note remains outstanding and unpaid or any other amount is owing to any Bank or the Agent hereunder, the Borrower shall not directly or indirectly:

6.1 Financial Covenants.

(a) Equity to Capital Ratio. Permit as of the end of any fiscal quarter the Equity to Capital Ratio to be less than thirty eight percent (38%).

(b) Interest Coverage Ratio. Permit as of the end of any fiscal quarter the Interest Coverage Ratio to be less than 1.8 to 1.

6.2 Limitation on Certain Debt. Except for the Loans and Commitments under the Loan Documents and the Term Loan Facilities, at any time enter into, assume or suffer to exist lines of credit or comparable extensions of credit from one or more commercial banks (or their Affiliates) under which the Borrower has incurred or may incur aggregate Debt in excess of $15,000,000.

6.3 Limitation on Liens. Create, incur, assume or suffer to exist any Lien upon any of its property, assets or revenues, including, without limitation, the stock of its Subsidiaries, whether now owned or hereafter acquired, except for:

(a) The following, (i) if the validity or amount thereof is being contested in good faith by appropriate and lawful proceedings diligently conducted so long as levy and execution thereon have been stayed and continue to be stayed or (ii) if a final judgment is entered and such judgment is discharged within thirty (30) days of entry, and in either case they do not materially impair the ability of the Borrower to perform its obligations hereunder or under the other Loan Documents:

(A) Claims or Liens for taxes, assessments or charges due and payable and subject to interest or penalty, provided that the Borrower maintains such reserves or other appropriate provisions as shall be required by GAAP and pays all such taxes, assessments or charges forthwith upon the commencement of proceedings to foreclose any such Lien;

(B) Claims, Liens or encumbrances upon, and defects of title to, real or personal property including any attachment of personal or real property or other legal process prior to adjudication of a dispute on the merits; and

(C) Claims or Liens of mechanics, materialmen, warehousemen, carriers, or other statutory nonconsensual Liens;

(b) pledges or deposits in connection with workers' compensation, unemployment insurance and other social security legislation;

(c) deposits to secure the performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business of the Borrower;

(d) easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount and which do not interfere with the ordinary conduct of the business of the Borrower;

(e) Liens which were in existence on the date hereof and shown on Schedule 6.3 and replacements, extensions or replacements thereof;

(f) Liens on assets acquired by the Borrower in acquisitions permitted by Section 6.6 (which liens were in existence at the time of such acquisitions);

(g) Liens upon real property, which property was acquired after the Closing Date by the Borrower, each of which Liens existed on such property before the time of its acquisition or was created to finance, refinance or refund the cost (including the cost of construction) of the respective property; provided, however, that no such Lien shall extend to or cover any accounts receivable or inventory under any circumstances or any property of the Borrower other than the respective property so acquired and improvements thereon, and the principal amount of indebtedness secured by any such Lien shall not exceed the fair market value of the respective property at the time it was acquired;

(h) Capital Leases as and to the extent permitted under this Agreement;

(i) purchase money security interests on capital equipment purchased in the ordinary course of business;

(j) Liens granted to secure indebtedness permitted by Section 6.2(vii) to the extent such Liens are also permitted under the Indenture;

(k) the Lien of the Indenture and other Liens in connection with the issuance of industrial revenue bonds or pollution control bonds, to the extent such Liens are permitted under the Indenture; and

(l) in addition to the Liens permitted by the preceding subparagraphs (a) through (k), inclusive, of this Section 6.3, Liens securing Debt of the Borrower provided that the aggregate principal amount of Debt secured by Liens pursuant to this Section 6.3(l) shall not exceed $10,000,000.

6.4 Limitations on Fundamental Changes. Enter into any merger, consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution), or convey, sell, lease, assign, transfer or otherwise dispose of, all or substantially all of its property, business or assets except:

(a) the Borrower may merge into the Parent Company, so long as the Parent Company is the surviving entity;

(b) any corporation or limited liability company (other than the Parent Company) may be merged or consolidated with or into the Borrower (provided that the Borrower shall be the continuing or surviving corporation); and

(c) a merger in connection with a Permitted Acquisition in accordance with Section 6.6 in which the surviving entity is the Borrower;

provided that, immediately after each such transaction and after giving effect thereto, the Borrower is in compliance with this Agreement and no Default or Event of Default shall be in existence or result from such transaction.

6.5 Limitation on Sale of Assets. Convey, sell, lease, assign, transfer or otherwise dispose of any of its property, business or assets (including, without limitation, accounts receivable and leasehold interests), whether now owned or hereafter acquired, except:

(i) obsolete or worn out property disposed of in the ordinary course of business;

(ii) the sale of inventory or other assets, or the licensing of intellectual property, in each case in the ordinary course of business;

(iii) any sale, transfer or lease of assets (i) which are replaced by like-kind assets or (ii) the proceeds of the sale of which are used within one-hundred and twenty (120) days of such sale to purchase like-kind assets;

(iv) any sale, transfer or lease of assets the proceeds of the sale of which are used to permanently reduce the Commitments; and

(v) in addition to the above subsections 6.5(a)(i) through 6.5(a)(iv), inclusive, any such conveyances, sales, leases, assignments, transfers or other disposals, the aggregate amount of which for any fiscal year does not exceed 5% of the Borrower's Consolidated Shareholders' Equity as at the end of the immediately preceding fiscal year.

6.6 Limitations on Acquisitions. Purchase, hold or acquire beneficially any stock, other securities or evidences of indebtedness of, or make or permit any investment or acquire any interest whatsoever in, any other Person, except for Permitted Acquisitions.

6.7 Limitation on Distributions and Investments. (a) At any time make (or incur any liability to make) or pay any Distribution in respect of the Borrower (other than a Distribution payable to the Parent Company); provided, however, that as of the declaration date of any such Distribution and after giving effect to the declaration or payment of any such Distribution no Default or Event of Default would exist; or

(b) Make any Investments other than Permitted Investments.

6.8 Transactions with Affiliates. Except as expressly permitted in this Agreement, directly or indirectly enter into any transaction or arrangement whatsoever or make any payment to or otherwise deal with any Affiliate, except, as to all of the foregoing in the ordinary course of and pursuant to the reasonable requirements of the Borrower's business and upon fair and reasonable terms not materially less favorable to the Borrower than would be obtained in a comparable arm's length transaction with a Person not an Affiliate of the Borrower.

6.9 Sale and Leaseback. Except if reasonably contemporaneous with the Borrower's purchase, enter into any arrangement with any Person providing for the leasing by the Borrower of real or personal property which has been or is to be sold or transferred by such Borrower to such Person or to any other Person to whom funds have been or are to be advanced by such Person on the security of such property or rental obligations of such Borrower.

6.10 Fiscal Year. Permit its Fiscal Year to end on a day other than December 31.

6.11 Continuation of or Change in Business. Discontinue any substantial part, or change the nature of, the existing business activities of the Borrower, or engage in any business either directly or through any Subsidiary except for businesses in which the Borrower is engaged on the date of this Agreement and any business activities directly related, similar or incidental or ancillary to such existing businesses.

SECTION 7. EVENTS OF DEFAULT

7.1 Events of Default. If any of the following events shall occur and be continuing:

(a) The Borrower shall fail to pay when due any principal of any Note, or shall fail to pay within five (5) days after the date when due any interest, Fees or other amount payable hereunder; or

(b) Any representation or warranty made or deemed made by the Borrower or any Guarantor herein or in any other Loan Document or which is contained in any certificate, document or financial or other statement furnished at any time under or in connection with this Agreement shall prove to have been incorrect in any material respect on or as of the date made or deemed made; or

(c) The Borrower shall default in the observance or performance of any agreement contained in Section 5.12 or in Section 6 or any representation or warranty contained in Section 3.21 is or becomes false or misleading at any time; or

(d) The Borrower or any Guarantor shall default in the observance or performance of any other agreement contained in this Agreement (other than as provided in paragraphs (a), (b) or (c) of this Section 7.1) or any other Loan Document, and such default shall continue unremedied for a period of thirty (30) days after notice of such default is given by the Agent; or

(e) One or more judgments or decrees shall be entered against the Borrower or any Guarantor involving in the aggregate a liability (not paid or fully covered by insurance) of $10,000,000 or more and all such judgments or decrees shall not have been vacated, discharged, settled, satisfied or paid, or stayed or bonded pending appeal, within thirty (30) days from the entry thereof; or

(f) The Borrower shall (i) default in the payment of any amount due under any Debt of the Borrower in excess of $10,000,000 in the aggregate (other than the Notes), beyond the period of grace, if any, provided in the instrument or agreement under which such Debt was created; or (ii) default in the observance or performance of any other agreement contained in any such Debt or in any instrument or agreement evidencing, securing or relating thereto beyond any applicable notice and grace period, or any other event shall occur the effect of which default or other event is to cause, or to permit the holder or holders or beneficiary or beneficiaries of such Debt (or a trustee or agent on behalf of such holder or holders or

beneficiary or beneficiaries) to cause such Debt to become due and payable prior to its stated maturity or any such Debt is declared to be due and payable prior to its stated maturity unless such default, event or declaration referred to in this subparagraph (ii) is waived or cured to the satisfaction of such other party as demonstrated to the satisfaction of the Agent by the Borrower prior to the Agent taking any action under Section 7.2 in respect of such occurrence; or

(g) (i) The Borrower or any Guarantor shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets, or the Borrower or any Guarantor shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against the Borrower or any Guarantor any case, proceeding or other action of a nature referred to in clause (i) above which (A) results in the entry of an order for relief or any such adjudication or appointment or (B) remains undismissed, undischarged or unbonded for a period of sixty (60) days; or (iii) there shall be commenced against the Borrower or any Guarantor any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process on a claim in excess of $10,000,000 against all or any substantial part of its assets which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within sixty (60) days from the entry thereof; or (iv) the Borrower or any Guarantor shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii), or (iii) above; or (v) the Borrower or any Guarantor shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due; or

(h) (i) Any Person shall engage in any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Code) involving any Plan, (ii) the adjusted target attainment percentage (within the meaning of Section 436(j)(2) of the Code) with respect to any Single Employer Plan maintained by the Borrower or Commonly Controlled Entity is certified by the Single Employer Plan's actuary to be less than eighty percent (80%) or deemed by operation of Section 436 of the Code in the absence of such certification to be less than eighty percent (80%), (iii) a Reportable Event shall occur with respect to, or proceedings shall commence to have a trustee appointed, or a trustee shall be appointed, to administer or to terminate, any Single Employer Plan, which Reportable Event or institution of proceedings is, in the reasonable opinion of the Required Banks, likely to result in the termination by action of the PBGC or any court of such Single Employer Plan for purposes of Title IV of ERISA, (v) any Single Employer Plan, if any, shall terminate for purposes of Title IV of ERISA, or (v) the Borrower or a Commonly Controlled Entity should completely or partially withdraw from a Multiemployer Plan; and in each case in clauses (i) through (v) above, such event or condition, together with all other such events or conditions, if any, could reasonably be expected to have a Material Adverse Effect; or

(i) Any change in control of the Borrower shall occur (as used herein, the term "change in control" means either (A) any change in ownership of any class of stock or

capital stock generally of the Borrower which would result in a change or transfer in the power to control the election of a majority of the board of directors or in other indicia of majority voting control to persons or entities other than those persons who have such majority voting control on the Closing Date or (B) a decrease in such persons' right to vote at shareholders' meetings to an aggregate level less than 51%); or

(j) Any of the Loan Documents shall cease to be legal, valid and binding agreements enforceable against the party executing the same or such party's successors and assigns (as permitted under the Loan Documents) in accordance with the respective terms thereof or shall in any way be terminated (except in accordance with its terms) or become or be declared ineffective or inoperative or shall in any way be challenged and thereby deprive or deny the Banks and the Agent the intended benefits thereof or they shall thereby cease substantially to have the rights, titles, interests, remedies, powers or privileges intended to be created thereby; or

(k) A notice of lien or assessment in excess of $2,000,000 is filed of record with respect to all or any part of the Borrower's or any Guarantor's assets having a value of at least that amount by the United States, or any department, agency or instrumentality thereof, or by any state, county, municipal, or other governmental agency, including, without limitation, the PBGC, becomes payable and the same is not paid, vacated, bonded or stayed pending appeal within thirty (30) days after the same becomes payable; or

(l) The Borrower ceases to be Solvent; or

(m) Except as otherwise permitted in this Agreement, the Borrower ceases to conduct its business as contemplated or the Borrower is enjoined, restrained or in any way prevented by court order from conducting all or any material part of its business so as to cause or result in a Material Adverse Effect, and such injunction, restraint or other preventive order is not dismissed within thirty (30) days after the entry thereof.

7.2 Remedies. (a) If an Event of Default specified under subsections 7.1 (a) through (f) or (h) through (m) shall occur and be continuing, the Banks shall be under no further obligation to make Loans hereunder, and the Agent upon the request of the Required Banks shall by written notice to the Borrower, terminate the Commitments and the Swing Line Commitment and/or declare the unpaid principal amount of the Notes then outstanding and all interest accrued thereon, any unpaid fees and all other obligations of the Borrower to the Banks hereunder and thereunder to be forthwith due and payable, and the same shall thereupon become and be immediately due and payable to the Agent for the benefit of each Bank without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived.

(b) If an Event of Default specified under subsections 7.1(g) hereof shall occur, the Commitments and the Swing Line Commitment shall immediately terminate and the Banks shall be under no further obligations to make Loans hereunder, and the unpaid principal amount of the Notes then outstanding and all interest accrued thereon, any unpaid fees and all other obligations of the Borrower to the Banks hereunder and thereunder shall be immediately due and payable, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived.

(c) If an Event of Default shall occur and be continuing, any Bank to whom any obligation is owed by the Borrower hereunder or under any other Loan Document or any participant of such Bank which has agreed in writing to be bound by the provisions of Section 9.6 hereof and any branch, subsidiary or Affiliate of such Bank or Participant shall have the right, in addition to all other rights and remedies available to it, without notice to the Borrower, to set off against and apply to the then unpaid balance of all the Loans and all other obligations of the Borrower hereunder or under any other Loan Document any debt owing to, and any other funds held in any manner for the account of, the Borrower by such Bank or participant or by such branch, Subsidiary or Affiliate, including, without limitation, all funds in all deposit accounts (whether time or demand, general or special, provisionally credited or finally credited, or otherwise) now or hereafter maintained by the Borrower for its own account (but not including funds held in custodian or trust accounts or other accounts established solely for the benefit of parties other than the Borrower) with such Bank or Participant or such branch, Subsidiary or Affiliate. Such right shall exist whether or not any Bank or the Agent shall have made any demand under this Agreement or any other Loan Document, whether or not such debt owing to or funds held for the account of the Borrower is or are matured or unmatured and regardless of the existence or adequacy of any collateral, guaranty or any other security, right or remedy available to any Bank or the Agent.

(d) Notwithstanding any provision herein to the contrary or in the other Loan Documents, any proceeds received by the Agent from any payment made by the Borrower under this Agreement or the other Loan Documents after the Commitments and the Swing Line Commitment have been terminated, or received by the Agent from the foreclosure, sale, lease, collection upon, realization of or other disposition of any collateral which may have been provided to the Agent for the obligations of the Borrower hereunder after the Commitments and the Swing Line Commitment have been terminated (including without limitation insurance proceeds), shall be applied by the Agent as follows, unless otherwise agreed by all the Banks:

(i) first, to reimburse the Agent for out-of-pocket costs, expenses and disbursements, including without limitation reasonable attorneys' fees and legal expenses, incurred by the Agent in connection with collection of any obligations of the Borrower under any of the Loan Documents;

(ii) second, to accrued and unpaid interest on the Loans;

(iii) third, to the principal amount of the Loans then outstanding;

(iv) fourth, to fees payable under this Agreement or any of the other Loan Documents (ratably according to the respective amounts then outstanding);

(v) fifth, to the repayment of all other indebtedness then due and unpaid of the Borrower to the Banks incurred under this Agreement or any of the other Loan Documents, whether of principal, interest, fees, expenses or otherwise (ratably according to the respective amounts then outstanding); and

(vi) the balance, if any, as required by law.

(e) Each Bank agrees that (i) if at any time it shall receive the proceeds of any collateral or any proceeds thereof or (ii) if after the Commitments and the Swing Line Commitment have been terminated it shall receive any payment on account of the Loans or any other amounts owing hereunder or under the other Loan Documents, under an Interest Rate Protection Agreement (in either case other than through application by the Agent in accordance with subsection 7.2(d)), it shall promptly turn the same over to the Agent for application in accordance with the terms of subsection 7.2(d).

(f) In addition to the other rights and remedies contained in this Agreement or in the other Loan Documents, the Loans shall, at the Required Banks' option, bear the interest rates provided in Section 2.7 hereof.

(g) In addition to all of the rights and remedies contained in this Agreement or in any of the other Loan Documents, the Agent shall have all of the rights and remedies under applicable law, all of which rights and remedies shall be cumulative and non-exclusive, to the extent permitted by law. The Agent may, and upon the request of the Required Banks shall, exercise all post-default rights granted to it and the Banks under the Loan Documents or applicable law.

SECTION 8. THE AGENT

8.1 Appointment. Each Bank hereby irrevocably designates and appoints PNC as the Agent of such Bank under this Agreement. Each such Bank irrevocably authorizes the Agent, as the agent for such Bank to take such action on its behalf under the provisions of this Agreement and to exercise such powers and perform such duties as are expressly delegated to the Agent by the terms of this Agreement, together with such other powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere in this Agreement, the Agent shall not have any duties or responsibilities, except those expressly set forth herein, or any fiduciary relationship with any Bank, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or otherwise exist against the Agent. The Agent agrees to act as the Agent on behalf of the Banks to the extent provided in this Agreement.

8.2 Delegation of Duties. The Agent may execute any of its duties under this Agreement by or through agents or attorneys-in-fact and shall be entitled to engage and pay for the advice and services of counsel concerning all matters pertaining to such duties. The Agent shall not be responsible to the Banks for the negligence or misconduct of any agents or attorneys in-fact selected by it with reasonable care.

8.3 Exculpatory Provisions. Neither the Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates shall be (i) liable for any action lawfully taken or omitted to be taken by them or such Person under or in connection with this Agreement (except for their or such Person's own gross negligence or willful misconduct) or (ii) responsible in any manner to any of the Banks for any recitals, statements, representations or warranties made by the Borrower or any officer thereof contained in this Agreement or in any certificate, report, statement or other document referred to or provided for in, or received by the Agent under or in connection with, this Agreement or for the value, validity, effectiveness,

genuineness, enforceability or sufficiency of this Agreement, the Notes or the other Loan Documents or for any failure of the Borrower to perform its obligations hereunder or thereunder. The Agent shall not be under any obligation to any Bank to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or the other Loan Documents, or to inspect the properties, books or records of the Borrower.

8.4 Reliance by Agent. The Agent shall be entitled to rely, and shall be fully protected in relying, upon any Note, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telecopy, telex or teletype message, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrower), independent accountants and other experts selected by the Agent. The Agent may deem and treat the payee of any Note as the owner thereof for all purposes unless a written notice of assignment, negotiation or transfer thereof shall have been filed with the Agent. The Agent shall be fully justified in failing or refusing to take any action under this Agreement unless it shall first receive such advice or concurrence of the Required Banks as it deems appropriate or it shall first be indemnified to its satisfaction by the Banks against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement, the Notes and the other Loan Documents in accordance with a request of the Required Banks, and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Banks and all future holders of the Notes.

8.5 Notice of Default. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless it has received notice from a Bank or the Borrower referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default". In the event that the Agent receives such a notice, the Agent shall give notice thereof to the Banks. The Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Required Banks; provided that unless and until the Agent shall have received such directions, the Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of the Banks.

8.6 Non-Reliance on Agent and Other Banks. Each Bank expressly acknowledges that neither the Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates has made any representations or warranties to it and that no act by the Agent hereinafter taken, including any review of the affairs of the Borrower, shall be deemed to constitute any representation or warranty by the Agent to any Bank. Each Bank represents to the Agent that it has, independently and without reliance upon the Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, financial and other condition and creditworthiness of the Borrower and made its own decision to make its Loans hereunder and enter into this Agreement. Each Bank also represents that it will, independently and without reliance upon the Agent or any other Bank, and based on such documents and information as it

shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigation as it deems necessary to inform itself as to the business, operations, property, financial and other condition and creditworthiness of the Borrower. Except for notices, reports and other documents expressly required to be furnished to the Banks by the Agent hereunder, the Agent shall not have any duty or responsibility to provide any Bank with any credit or other information concerning the business, operations, property, condition (financial or otherwise), prospects or creditworthiness of the Borrower which may come into the possession of the Agent or any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates.

8.7 Indemnification. The Banks agree to indemnify the Agent in its capacity as such (to the extent not reimbursed by the Borrower and without limiting the obligation of the Borrower to do so), ratably according to their respective Commitment Percentages, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever which may at any time (including, without limitation, at any time following the payment of the Notes) be imposed on, incurred by or asserted against the Agent in any way relating to or arising out of this Agreement, the other Loan Documents, or any documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby or any action taken or omitted by the Agent under or in connection with any of the foregoing; provided that no Bank shall be liable for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting solely from the Agent's gross negligence or willful misconduct. The agreements in this Section 8.7 shall survive the payment of the Notes and all other amounts payable hereunder.

8.8 Agent in its Individual Capacity. The Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower as though it was not the Agent hereunder. With respect to its Loans made or renewed by it and any Note issued to it, the Agent shall have the same rights and powers under this Agreement as any Bank and may exercise the same as though it were not the Agent, and the terms "Bank" and "Banks" shall include the Agent in its individual capacity.

8.9 Successor Agent. The Agent may resign as Agent upon sixty (60) days' notice to the Banks and the Borrower. If such Agent shall resign as Agent under this Agreement, then the Required Banks shall appoint from among the Banks a successor agent for the Banks, which appointment shall be subject to the approval of the Borrower (which approval shall not be unreasonably withheld), whereupon such successor agent shall succeed to the rights, powers and duties of an Agent, and the term "Agent" shall mean such successor agent effective upon its appointment, and the former Agent's rights, powers and duties as Agent shall be terminated, without any other or further act or deed on the part of such former Agent or any of the parties to this Agreement or any holders of the Notes. After any retiring Agent's resignation as Agent, the provisions of this Section 8.9 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

8.10 Beneficiaries. Except as expressly provided herein, the provisions of this Section 8 are solely for the benefit of the Agent and the Banks, and the Borrower shall not have any rights to rely on or enforce any of the provisions hereof. In performing their functions and

duties under this Agreement the Agent shall act solely as agent of the Banks and does not assume and shall not be deemed to have assumed any obligation toward or relationship of agency or trust with or for the Borrower.

8.11 USA Patriot Act. (a) Each Bank or assignee or participant of a Bank that is not incorporated under the laws of the United States of America or a state thereof (and is not excepted from the certification requirement contained in Section 313 of the USA Patriot Act and the applicable regulations because it is both (a) an Affiliate of a depository institution or foreign bank that maintains a physical presence in the United States or foreign country, and (b) subject to supervision by a banking authority regulating such affiliated depository institution or foreign bank) shall deliver to the Agent the certification, or, if applicable, recertification, certifying that such Bank is not a "shell" and certifying to other matters as required by Section 313 of the USA Patriot Act and the applicable regulations: (i) within 10 days after the Closing Date, and (ii) at such other times as are required under the USA Patriot Act.

(b) Each Bank acknowledges and agrees that neither such Bank, nor any of its Affiliates, participants or assignees, may rely on the Agent to carry out such Bank's, Affiliate's, participant's or assignee's customer identification program, or other obligations required or imposed under or pursuant to the USA Patriot Act or the regulations thereunder, including the regulations contained in 31 CFR 103.121 (as hereafter amended or replaced, the "CIP Regulations"), or any other Anti-Terrorism Law, including any programs involving any of the following items relating to or in connection with the Borrower, its Affiliates or their agents, the Loan Documents or the transactions hereunder or contemplated hereby: (i) any identity verification procedures, (ii) any recordkeeping, (iii) comparisons with government lists, (iv) customer notices or (v) other procedures required under the CIP Regulations or such other Anti-Terrorism Laws.

SECTION 9. MISCELLANEOUS

9.1 Amendments and Waivers. Neither this Agreement, any Note or any other Loan Document, nor any terms hereof of thereof may be amended, supplemented or modified except in accordance with the provisions of this subsection. With the written consent of the Required Banks, the Agent and the Borrower may, from time to time, enter into written amendments, supplements or modifications hereto and to the Notes and the other Loan Documents for the purpose of adding any provisions to this Agreement or the Notes or the other Loan Documents or changing in any manner the rights of the Banks or of the Borrower hereunder or thereunder or waiving, on such terms and conditions as the Agent may specify in such instrument, any of the requirements of this Agreement or the Notes or the other Loan Documents or any Default or Event of Default and its consequences; provided, however, that no such waiver and no such amendment, supplement or modification shall directly or indirectly (a) reduce the amount or extend the maturity of any Note or any installment thereof, or reduce the rate or extend the time of payment of interest thereon, or reduce any Fees payable to any Bank hereunder, or change the duration or amount of any Bank's Commitment, in each case without the consent of the Bank affected thereby or (b) amend, modify or waive any provision of this Section 9.1 or reduce the percentages specified in the definition of Required Banks or consent to the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement, the Notes and the other Loan Documents, in each case without the written

consent of all the Banks, (c) amend, modify or waive any provision of Section 2.2 without the written consent of the then Swing Line Bank or (d) amend, modify or waive any provision of Section 8 without the written consent of the then Agent. Any such waiver and any such amendment, supplement or modification shall apply equally to each of the Banks and shall be binding upon the Borrower, the Banks, the Agent and all future holders of the Notes. In the case of any waiver, the Borrower, the Banks and the Agent shall be restored to their former position and rights hereunder and under the outstanding Notes, and any Default or Event of Default waived shall be deemed to be cured and not continuing; but no such waiver shall extend to any subsequent or other Default or Event of Default, or impair any right consequent thereon.

9.2 Notices. All notices, requests and demands to or upon the respective parties hereto to be effective shall be in writing (including electronic transmission, facsimile transmission or posting on a secured web site), and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when delivered by hand, or three days after being deposited in the mail, postage prepaid, or, in the case of facsimile transmission notice, when sent during normal business hours with electronic confirmation or otherwise when received, or in the case of electronic transmission, when received and in the case of posting on a secured web site, upon receipt of (i) notice of such posting and (ii) rights to access such web site, addressed as follows in the case of the Borrower and the Agent, and as set forth in Schedule I in the case of the other parties hereto, or to such other address as may be hereafter notified by the respective parties hereto and any future holders of the Notes:

the Borrower:	Aqua Pennsylvania, Inc. 762 W. Lancaster Avenue Bryn Mawr, PA 19010-3489 Attention: Stan Szczygiel Treasurer Facsimile: (610) 645-0908
with a copy to:	Aqua Pennsylvania, Inc. 762 West Lancaster Avenue Bryn Mawr, PA 19010 Attention: Christopher P. Luning Senior Vice President and General Counsel (provided that failure to send a copy of any notice to said counsel shall in no way affect, limit or invalidate any notice sent to the Borrower or the exercise of any of the Banks' or the Agent's rights or remedies pursuant to a notice sent to the Borrower.)

The Agent or the Swing Line Bank:	PNC Bank, National Association 1000 Westlakes Drive, Suite 300 Berwyn, PA 19312 Attention: Domenic D'Ginto Facsimile: (610) 725-5799
	and
	PNC Agency Services One PNC Plaza 249 Fifth Avenue 22nd Floor Pittsburgh, PA 15222 Attention: Martin Hannak Facsimile: (412) 762-8672

provided that any notice, request or demand to or upon the Agent, the Swing Line Bank or the Banks pursuant to Sections 2.1, 2.2, 2.8 or 2.9 shall not be effective until received.

9.3 No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising, on the part of the Agent or any Bank, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

9.4 Survival of Representations and Warranties. All representations and warranties made hereunder and in any document, certificate or statement delivered pursuant hereto or in connection herewith shall survive the execution and delivery of this Agreement, the Notes and the other Loan Documents.

9.5 Payment of Expenses and Taxes. The Borrower agrees (a) to pay or reimburse the Agent for all of its reasonable out-of-pocket costs and expenses incurred in connection with any amendment, supplement or modification to this Agreement, the Notes, the other Loan Documents and any other documents prepared in connection therewith, including, without limitation, the reasonable fees and disbursements of counsel to the Agent (which counsel may or may not include employees of the Agent), (b) to pay or reimburse each Bank and the Agent for all of their costs and expenses incurred in connection with the enforcement or preservation of any rights under this Agreement, the other Loan Documents and any such other documents, including, without limitation, reasonable fees and disbursements of counsel to the Agent (which counsel may or may not include employees of the Agent) and to the several Banks, and (c) to pay, indemnify, and hold each Bank and the Agent harmless from, any and all recording and filing fees and any and all liabilities with respect to, or resulting from any delay in paying, stamp, excise and other similar taxes, if any (other than Taxes expressly excluded from the definition of Taxes in Section 2.12 and Taxes for which the Borrower has no liability under subsection 2.12(c)) which may be payable or determined to be payable in connection with the

execution and delivery of, or consummation of any of the transactions contemplated by, or any amendment, supplement or modification of, or any waiver or consent under or in respect of, this Agreement, the Notes, the other Loan Documents, and any such other documents, and (d) to pay, indemnify, and hold each Bank and the Agent harmless from and against any and all other liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever with respect to the execution, delivery, enforcement, and, incident to a Default or Event of Default, the performance and administration, of this Agreement, the Notes, the other Loan Documents and any such other documents or the transactions contemplated hereby or thereby or any action taken or omitted under or in connection with any of the foregoing (all the foregoing, collectively, the "indemnified liabilities"), provided, that the Borrower shall have no obligation hereunder to the Agent or any Bank with respect to indemnified liabilities arising from the gross negligence or willful misconduct of the Agent or any such Bank. The Borrower shall be given notice of any claim for indemnified liabilities and shall be afforded a reasonable opportunity to participate in the defense, compromise or settlement thereof. The agreements in this subsection shall survive repayment of the Notes and all other amounts payable hereunder.

9.6 Successors and Assigns. (a) Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party, and all covenants, promises and agreements by or on behalf of the Borrower, the Agent or the Banks that are contained in this Agreement shall bind and inure to the benefit of their respective successors and assigns. The Borrower may not assign or transfer any of its rights or obligations under this Agreement or the other Loan Documents without the prior written consent of each Bank.

(b) Each Bank may, in accordance with applicable law, assign to all or a portion of its interests, rights and obligations under this Agreement and the other Loan Documents (including all or a portion of its Commitment or the Swing Line Commitment, and the Loans at the time owing to it and the Notes held by it); provided, however, that (i) each such assignment shall be to a Bank or Affiliate thereof, or, with the consent of the Agent and, prior to the occurrence of an Event of Default, of the Borrower (which consent shall not be unreasonably withheld or delayed) to one or more banks or other financial institutions, (ii) so long as the Commitments are in effect, the amount of each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Agent) shall not be less than $5,000,000, (iii) the parties to each such assignment shall execute and deliver to the Agent an Assignment and Acceptance, together with the Note or Notes subject to such assignment and a processing and recordation fee of $3,500 (except in the case of an assignment by any Bank to one of its Affiliates), (iv) any assignment of the Swing Line Commitment may be made only to a Bank which holds a Commitment hereunder and must be of the entire Swing Line Commitment and (v) each such assignment of Revolving Credit Loans and all or any portion of a Bank's Commitment shall be of a constant, and not a varying, percentage of the assigning Bank's Commitment and Revolving Credit Loans then outstanding. Upon acceptance and recording pursuant to paragraph (d) of this Section 9.6, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five Business Days after the execution thereof, (A) the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Bank under this Agreement and (B) the assigning Bank thereunder shall, to the extent of the

interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Bank's rights and obligations under this Agreement, such Bank shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.11, 2.12, 2.13 and 9.5 (to the extent that such Bank's entitlement to such benefits arose out of such Bank's position as a Bank prior to the applicable assignment)). Notwithstanding any provision of this subsection 9.6, after the Commitments and the Swing Line Commitments have been terminated, any Bank may assign all or any portion of its interests, rights and obligations under this Agreement and the other Loan Documents to any Person (whether or not an entity described in clause (i) above).

(c) By executing and delivering an Assignment and Acceptance, the assigning Bank thereunder and the assignee thereunder shall be deemed to confirm to and agree with each other and the other parties hereto as follows: (i) such assigning Bank warrants that it is the legal and beneficial owner of the interest being assigned thereby, free and clear of any adverse claim, and that its Commitment and/or the Swing Line Commitment, as the case may be, and the outstanding balances of its Loans, in each case without giving effect to assignments thereof which have not become effective, are as set forth in such Assignment and Acceptance, (ii) except as set forth in (i) above, such assigning Bank makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the other Loan Documents, or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or the other Loan Documents, or any other instrument or document furnished pursuant hereto or thereto, or the financial condition of the Borrower or the performance or observance by the Borrower of any of its obligations under this Agreement or any other instrument or document furnished pursuant hereto; (iii) such assignee represents and warrants that it is legally authorized to enter into such Assignment and Acceptance; (iv) such assignee confirms that it has received a copy of this Agreement, together with copies of the most recent financial statements delivered pursuant to Section 5.1 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (v) such assignee will independently and without reliance upon the Agent, such assigning Bank or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (vi) such assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all the obligations which by the terms of this Agreement are required to be performed by it as a Bank.

(d) The Agent shall maintain at its offices in Philadelphia, Pennsylvania a copy of each Assignment and Acceptance and the names and addresses of the Banks, and the Commitment and/or the Swing Line Commitment of, and principal amount of the Loans owing to, each Bank pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive in the absence of error and the Borrower, the Agent and the Banks may treat each person whose name is recorded in the Register pursuant to the terms hereof as a Bank hereunder for all purposes of this Agreement. The Register shall be

available for inspection by the Borrower and any Bank, at any reasonable time and from time to time upon reasonable prior notice.

(e) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Bank and an assignee together with the Note or Notes subject to such assignment, the processing and recordation fee referred to in paragraph (b) above, the Agent shall (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Banks. Within five Business Days after receipt of notice, the Borrower, at its own expense, shall execute and deliver to the Agent, in exchange for the surrendered original Note(s), (x) a new Revolving Credit Note to the order of such assignee in an amount equal to the portion of the Commitment assumed by it pursuant to such Assignment and Acceptance and, if applicable, a new Swing Line Note to the order of such assignee in an amount equal to the Swing Line Commitment and, (y) if the assigning Bank has retained a Commitment, a new Revolving Credit Note to the order of such assigning Bank in a principal amount equal to the applicable Commitment retained by it. Such new Notes shall be in an aggregate principal amount equal to the aggregate principal amount of such surrendered Notes; such new Notes shall be dated the date of the surrendered Notes which they replace and shall otherwise be in substantially the form of Exhibit B-1 or Exhibit B-2 hereto, as appropriate. Canceled Notes shall be returned to the Borrower.

(f) Each Bank may without the consent of the Borrower or the Agent sell participations to one or more banks or other entities (each a "Participant") in all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment or Swing Line Commitment and the Loans owing to it and the Notes held by it); provided, however, that (i) such Bank's obligations under this Agreement shall remain unchanged, (ii) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Bank shall remain the holder of any such Note for all purposes under this Agreement, (iv) the Borrower, the Agent and the other Banks shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement, (v) in any proceeding under the Bankruptcy Code such Bank shall be, to the extent permitted by law, the sole representative with respect to the obligations held in the name of such Bank whether for its own account or for the account of any Participant and (vi) such Bank shall retain the sole right to enforce the obligations of the Borrower relating to the Loans and to approve any amendment, modification or waiver of any provision of this Agreement or the Note or Notes held by such Bank other than any such amendment, modification or waiver with respect to any Loan or Commitment in which such Participant has an interest and which is described in subsection 9.1(a) hereof. Each Bank that sells a participation will, acting solely for this purpose as a non-fiduciary agent of the Borrower, maintain a register on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant's interest in the Revolving Credit Loans or other obligations under the Loan Documents (the "Participant Register"); provided that no Bank has any obligation to disclose all or any portion of the Participant Register (including the identity of any Participant or any information relating to a Participant's interest in any commitments, loans, letters of credit or its other obligations under any Loan Document) to any Person except to the extent that such disclosure is necessary to establish that such commitment, loan, letter of credit or other obligation is in registered form under Section 5f.l03 1(c) of the United States Treasury Regulations. The entries in the Participant Register are conclusive absent manifest error, and such Bank must treat each Person

whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary. For the avoidance of doubt, the Agent has no responsibility for maintaining a Participant Register for any other Bank.

(g) If amounts outstanding under this Agreement and the Notes are due or unpaid, or shall have been declared or shall have become due and payable upon the occurrence of an Event of Default, each Participant shall be deemed to have the right of set-off in respect of its participating interest in amounts owing under this Agreement and any Note to the same extent as if the amount of its participating interest were owing directly to it as a Bank under this Agreement or any Note, provided that in purchasing such participation such Participant shall be deemed to have agreed to share with the Banks the proceeds thereof as provided in Section 9.8. The Borrower also agree that each Participant shall be entitled to the benefits of Sections 2.11, 2.12, 2.13 and 9.5 with respect to its participation in the Commitments and the Loans outstanding from time to time; provided, that no Participant shall be entitled to receive any greater amount pursuant to such Sections than the Bank selling the participation would have been entitled to receive in respect of the amount of the participation transferred by such Bank to such Participant had no such transfer occurred.

(h) If any Participant is organized under the laws of any jurisdiction other than the United States or any state thereof, the Bank selling the participation, concurrently with the sale of a participating interest to such Participant, shall cause such Participant (i) to represent to the Bank selling the participation (for the benefit of such Bank, the other Banks, the Agent and the Borrower) that under applicable law and treaties no taxes will be required to be withheld by the Agent, the Borrower or the Bank selling the participation with respect to any payments to be made to such Participant in respect of its participation in the Loans and (ii) to agree (for the benefit of such Bank, the other Banks, the Agent and Borrower) that it will deliver the tax forms and other documents required to be delivered pursuant to Section 2.12 and comply from time to time with all applicable U.S. laws and regulations with respect to withholding tax exemptions.

(i) Any Bank may at any time assign all or any portion of its rights under this Agreement and the Notes issued to it to a Federal Reserve Bank; provided that no such assignment shall release a Bank from any of its obligations hereunder.

9.7 Confidentiality. The Banks agree that they will maintain all information and financial statements provided to them or otherwise obtained by them with respect to the Borrower and its Subsidiaries confidential and that they will not disclose the same or use it for any purposes; provided that nothing herein shall prevent any Bank from disclosing any such information (a) to the Agent or any other Bank, (b) to any prospective assignee or participant in connection with any assignment or participation of Loans permitted by this Agreement, (c) to its employees, directors, agents, attorneys, accountants and other professional advisers, provided that any such person is advised by such Bank that such information is subject to the confidentiality limitations of this Section, (d) upon the request or demand of any Governmental Authority having jurisdiction over such Bank, (e) in response to any order of any court or other Governmental Authority or as may otherwise be required pursuant to any Requirement of Law, provided that the Borrower has (unless prohibited by the terms of any such order or requirement) been advised at least ten (10) days (or if such is not possible or practicable, such lesser number

of days as is possible or practicable under the circumstances) prior to such disclosure of the existence of such order or requirement, (f) which has been publicly disclosed other than in breach of this Agreement, or (g) in connection with the exercise of any remedy hereunder or under the Notes.

9.8 Adjustments; Set-off. (a) If any Bank (a "benefited Bank") shall at any time receive any payment of all or part of its Loans, or interest thereon, or receive any collateral in respect thereof (whether voluntarily or involuntarily, by set-off, pursuant to events or proceedings of the nature referred to in subsection 7(g), or otherwise), in a greater proportion than any such payment to or collateral received by any other Bank, if any, in respect of such other Bank's Loans, or interest thereon, being paid in respect of Loans being repaid simultaneously therewith or Loans required hereby to be paid proportionately such benefited Bank shall purchase for cash from the other Banks such portion of each such other Bank's Loan, or shall provide such other Banks with the benefits of any such collateral, or the proceeds thereof, as shall be necessary to cause such benefited Bank to share the excess payment or benefits of such collateral or proceeds ratably with each of the Banks; provided, however, that if all or any portion of such excess payment or benefits is thereafter recovered from such benefited Bank, such purchase shall be rescinded, and the purchase price and benefits returned, to the extent of such recovery, but without interest. The Borrower agrees that each Bank so purchasing a portion of another Bank's Loan may exercise all rights of payment (including, without limitation, rights of set-off) with respect to such portion as fully as if such Bank were the direct holder of such portion.

(b) In addition to any rights and remedies of the Banks provided by law, upon the occurrence of an Event of Default, each Bank shall have the right, without prior notice to the Borrower, any such notice being expressly waived by the Borrower to the extent permitted by applicable law, upon any amount becoming due and payable by the Borrower hereunder or under the Notes (whether at the stated maturity, by acceleration or otherwise) to set-off and appropriate and apply against such amount any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by such Bank to or for the credit or the account of the Borrower. Each Bank agrees promptly to notify the Borrower and the Agent after any such set-off and application made by such Bank, that the failure to give such notice shall not affect the validity of such set-off and application.

9.9 Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the copies of this Agreement signed by all the parties shall be lodged with the Borrower and each of the Banks.

9.10 Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

9.11 Integration. This Agreement represents the agreement of the Borrower, the Agent and the Banks with respect to the subject matter hereof, and there are no promises, undertakings, representations or warranties by the Agent or any Bank relative to subject matter hereof not expressly set forth or referred to herein or in the Notes or the other Loan Documents.

9.12 **GOVERNING LAW**. THIS AGREEMENT, THE NOTES AND THE OTHER LOAN DOCUMENTS HAVE BEEN EXECUTED IN THE COMMONWEALTH OF PENNSYLVANIA AND SAID DOCUMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT, THE NOTES AND THE OTHER LOAN DOCUMENTS SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE COMMONWEALTH OF PENNSYLVANIA.

9.13 Submission To Jurisdiction; Waivers. The Borrower hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Agreement, the Notes or the other Loan Documents, or for recognition and enforcement of any judgment in respect thereof, to the non-exclusive general jurisdiction of the Courts of the Commonwealth of Pennsylvania located in Montgomery and Philadelphia Counties, the courts of the United States of America for the Eastern District of Pennsylvania, and appellate courts from any thereof;

(b) consents that any such action or proceeding may be brought in such courts and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to the Borrower at the address set forth in Section 9.2 for the Borrower or at such other address of which the Agent shall have been notified pursuant thereto; and

(d) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction.

9.14 Acknowledgments. The Borrower hereby acknowledges that:

(a) it has been advised by counsel in the negotiation, execution and delivery of this Agreement, the Notes and the other Loan Documents;

(b) neither the Agent nor any Bank has any fiduciary relationship to the Borrower, and the relationship between the Agent and the Banks, on one hand, and the Borrower, on the other hand, is solely that of debtor and creditor; and

(c) no joint venture exists among the Banks or between the Borrower and the Banks.

9.15 **WAIVERS OF JURY TRIAL**. EACH OF THE BORROWER, THE AGENT AND THE BANKS HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT, THE NOTES OR THE OTHER LOAN DOCUMENTS AND FOR ANY COUNTERCLAIM THEREIN.

9.16 USA PATRIOT ACT. Each Bank that is subject to the requirements of the USA Patriot Act hereby notifies the Borrower that pursuant to the requirements of the USA Patriot Act, it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Bank to identify the Borrower in accordance with the USA Patriot Act.

9.17 Acknowledgement and Consent to Bail-In of EEA Financial Institutions.

Notwithstanding anything to the contrary in any Loan Document or in any other agreement, arrangement or understanding among any such parties, each party hereto acknowledges that any liability of any EEA Financial Institution arising under any Loan Document, to the extent such liability is unsecured, may be subject to the write-down and conversion powers of an EEA Resolution Authority and agrees and consents to, and acknowledges and agrees to be bound by:

(a) the application of any Write-Down and Conversion Powers by an EEA Resolution Authority to any such liabilities arising hereunder which may be payable to it by any party hereto that is an EEA Financial Institution; and

(b) the effects of any Bail-in Action on any such liability, including, if applicable:

(i) a reduction in full or in part or cancellation of any such liability;

(ii) a conversion of all, or a portion of, such liability into shares or other instruments of ownership in such EEA Financial Institution, its parent undertaking, or a bridge institution that may be issued to it or otherwise conferred on it, and that such shares or other instruments of ownership will be accepted by it in lieu of any rights with respect to any such liability under this Agreement or any other Loan Document; or

(iii) the variation of the terms of such liability in connection with the exercise of the write-down and conversion powers of any EEA Resolution Authority.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

AQUA PENNSYLVANIA, INC.

By: \s\ Stan F. Szczygiel
Name: Stan F. Szczygiel
Title: Vice President and Treasurer

PNC BANK, NATIONAL ASSOCIATION, as Agent and as a Bank

By: \s\ Domenic D'Ginto
Name: Domenic D'Ginto
Title: Senior Vice President

TD BANK, N.A.

By: \s\ Jennifer L. Suspenski
Name: Jennifer L. Suspenski
Title: Vice President

CITIZENS BANK OF PENNSYLVANIA

By: \s\ Leslie D. Broderick
Name: Leslie D. Broderick
Title: Senior Vice President

THE HUNTINGTON NATIONAL BANK

By: \s\ Michael Kiss
Name: Michael Kiss
Title: Vice President

Schedule I

Bank and Commitment Information

Bank	Commitment	Swing Line Commitment
PNC Bank, National Association 1600 Market Street Philadelphia, PA 19103 Attention: Meredith Jermann	$50,000,000	$10,000,000
TD Bank, N.A. 1701 Route 70 East Cherry Hill, NJ 08034 Attention: John T. Callaghan	$20,000,000	N/A
Citizens Bank of Pennsylvania 610 W. Germantown Avenue Plymouth Meeting, PA 19462 Attention: Leslie Broderick	$20,000,000	N/A
The Huntington National Bank 310 Grant Street, 4th Floor Pittsburgh PA 15219 Attention: Michael Kiss	$10,000,000	N/A

Schedule 3.6

Existing Litigation

None.

Schedule 3.11

Regulatory Approvals

The Pennsylvania Public Utility Commission regulates Borrower's issuance of debt, the maturity date of which is one year or more from the date of execution. (66 Pa. C.S. § 1901)

Schedule 3.13

Environmental Matters

A. In its water treatment process, the Borrower uses chemicals, including chlorine, caustic soda and sodium chlorite, which are listed as hazardous substances. These chemicals are, in all materials respects, stored and used at the Borrower's plants and facilities in accordance with the Environmental Laws.

B. The Borrower operates a central laboratory at its Bryn Mawr facility for analysis of drinking water samples. To perform required analyses, the Borrower maintains small quantities of solvents, reagents and chemical standards, some of which are listed as hazardous substances. These materials, in all material respects, are stored and used in compliance with the Environmental Laws.

Schedule 3.19

Interests in Partnerships

None.

Schedule 6.3

Existing Liens

A. Indenture of Mortgage dated as of January 1, 1941 from the Borrower to The Bank of New York Mellon Trust Company, N.A., as current trustee thereunder, as amended and supplemented.

EXHIBIT A

FORM OF
BORROWING REQUEST

PNC Bank, National Association
as Agent for the
Banks referred to below
PNC Agency Services
One PNC Plaza
249 Fifth Avenue
22nd Floor
Pittsburgh, PA 15222
Attention: Ronald Harapko

[Date]

Ladies and Gentlemen:

The undersigned, Aqua Pennsylvania, Inc. (the "Borrower"), refers to the Amended and Restated Credit Agreement dated as of November __, 2016 (as amended, modified, extended or restated from time to time, the "Agreement"), among the Borrower, the Banks party thereto and PNC Bank, National Association as Agent. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Agreement. The Borrower hereby gives you notice pursuant to Section 2.1 of the Agreement that it requests a Borrowing under the Agreement, and in that connection sets forth below the terms on which such Borrowing is requested to be made:

(A) Date of Borrowing (which is a Business Day) _____

(B) Principal Amount of Borrowing [1] $_____

(C) Interest rate basis [2] _____

[1] Not less than $500,000 or a whole multiple of $100,000 in excess thereof for a Eurodollar Borrowing nor less than $250,000 or a whole multiple of $50,000 in excess thereof for a Base Rate Borrowing.

[2] Eurodollar Loan or Base Rate Loan.

(D) Interest Period and the last day thereof [3] _____

Upon acceptance of any or all of the Revolving Credit Loans made by the Banks in response to this request, the Borrower shall be deemed to have represented and warranted that the conditions to lending specified in Section 4.2 of the Agreement have been satisfied.

Very truly yours,

AQUA PENNSYLVANIA, INC.

By:
Title:

[3] Which shall be subject to the definition of "Interest Period" and end not later than the Termination Date.

EXHIBIT B-1

NOTE

$_____ Philadelphia, Pennsylvania
November __, 2016

FOR VALUE RECEIVED, the undersigned, AQUA PENNSYLVANIA, INC. (the "Borrower"), hereby promises to pay to the order of _____ (the "Bank"), at the office of PNC Bank, National Association (the "Agent"), at 1600 Market Street, Philadelphia, PA 19103, on the Termination Date, the lesser of the principal sum of _____ _____ Dollars ($_____) and the aggregate unpaid principal amount of all Loans made by the Bank to the Borrower pursuant to Section 2.1 of the Amended and Restated Credit Agreement dated as of November __, 2016, among the Borrower, the Banks party thereto and the Agent (as amended, modified, extended or restated from time to time, the "Agreement"), in lawful money of the United States of America in same day funds, and to pay interest from the date hereof on such principal amount from time to time outstanding, in like funds, at said office, at a rate or rates per annum and payable on the dates determined pursuant to the Agreement.

The Borrower promises to pay interest, on demand, on any overdue principal and, to the extent permitted by law, overdue interest from their due dates at the rate or rates determined as set forth in the Agreement.

The Borrower hereby waives diligence, presentment, demand, protest and notice of any kind whatsoever. The nonexercise by the holder of any of its rights hereunder in any particular instance shall not constitute a waiver thereof in that or any subsequent instance.

All borrowings evidenced by this Note and all payments and prepayments of the principal hereof and interest hereon and the respective dates thereof shall be endorsed by the holder hereof on the schedule attached hereto and made a part hereof, or on a continuation thereof which shall be attached hereto and made a part hereof, or otherwise recorded by such holder in its internal records; provided, however, that the failure of the holder hereof to make such a notation or any error in such a notation shall not in any manner affect the obligations of the Borrower to make payments of principal and interest in accordance with the terms of this Note and the Agreement.

[This Note amends, restates and supersedes a prior note of the Borrower payable to the Bank, dated _____ (the "Prior Note"). This Note shall in no way extinguish the Borrower's unconditional obligation to repay all indebtedness evidenced by the Prior Note, is given in substitution for and not as payment of the Prior Note and is in no way intended to constitute a novation of the Prior Note.]

This Note is one of the Notes referred to, in evidences indebtedness incurred under, and is entitled to the benefits of the Agreement. The Agreement, among other things, contains provisions for the acceleration of the maturity hereof upon the happening of certain events, for optional and mandatory prepayments of the principal hereof prior to the maturity hereof, for a

higher rate of interest hereunder after an Event of Default and for the amendment or waiver of certain provisions of the Agreement, all upon the terms and conditions therein specified. This Note shall be construed in accordance with and governed by the laws of the Commonwealth of Pennsylvania and any applicable laws of the United States of America. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Agreement.

AQUA PENNSYLVANIA, INC.

By:
Name:
Title:

Loans and Payments

Date	Amount of Loan	Interest Rate	Interest Period	Payments		Unpaid Principal Balance of Note	Name of Person Making Notation
				Principal	Interest		

EXHIBIT B-2

SWING LINE NOTE

$10,000,000 Philadelphia, Pennsylvania
November __, 2016

FOR VALUE RECEIVED, the undersigned, AQUA PENNSYLVANIA, INC. (the "Borrower"), hereby promises to pay to the order of PNC BANK, NATIONAL ASSOCIATION (the "Bank"), at the office of the Agent (as hereinafter defined), at 1600 Market Street, Philadelphia, PA 19103, in accordance with the terms of the Agreement (as hereinafter defined), the lesser of the principal sum of Ten Million Dollars ($10,000,000) and the aggregate unpaid principal amount of all Swing Line Loans made by the Bank to the Borrower pursuant to Section 2.2 of the Amended and Restated Credit Agreement dated as of November __, 2016, among the Borrower, the Banks party thereto and PNC Bank, National Association, as agent for the Banks (the "Agent") (as amended, modified, extended or restated from time to time, the "Agreement"), in lawful money of the United States of America in same day funds, and to pay interest from the date hereof on such principal amount from time to time outstanding, in like funds, at said office, at a rate or rates per annum and payable on the dates determined pursuant to the Agreement.

The Borrower promises to pay interest, on demand, on any overdue principal and, to the extent permitted by law, overdue interest from their due dates at the rate or rates determined as set forth in the Agreement.

The Borrower hereby waives diligence, presentment, demand, protest and notice of any kind whatsoever. The nonexercise by the holder of any of its rights hereunder in any particular instance shall not constitute a waiver thereof in that or any subsequent instance.

All borrowings evidenced by this Swing Line Note and all payments and prepayments of the principal hereof and interest hereon and the respective dates thereof shall be endorsed by the holder hereof on the schedule attached hereto and made a part hereof, or on a continuation thereof which shall be attached hereto and made a part hereof, or otherwise recorded by such holder in its internal records; provided, however, that the failure of the holder hereof to make such a notation or any error in such a notation shall not in any manner affect the obligations of the Borrower to make payments of principal and interest in accordance with the terms of this Swing Line Note and the Agreement.

[This Note amends, restates and supersedes a prior note of the Borrower payable to the Bank, dated _____ (the "Prior Note"). This Note shall in no way extinguish the Borrower's unconditional obligation to repay all indebtedness evidenced by the Prior Note, is given in substitution for and not as payment of the Prior Note and is in no way intended to constitute a novation of the Prior Note.]

This Swing Line Note is the Swing Line Note referred to in, evidences indebtedness incurred under, and is entitled to the benefits of the Agreement. The Agreement, among other things, contains provisions for the acceleration of the maturity hereof upon the happening of certain events, for optional and mandatory prepayments of the principal hereof prior to the maturity hereof, for a higher rate of interest hereunder after an Event of Default and for the amendment or waiver of certain provisions of the Agreement, all upon the terms and conditions therein specified. This Swing Line Note shall be construed in accordance with and governed by the laws of the Commonwealth of Pennsylvania and any applicable laws of the United States of America. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Agreement.

AQUA PENNSYLVANIA, INC.

By:
Name:
Title:

Loans and Payments

Date	Amount of Loan	Interest Rate	Swing Line Repayment Date	Payments		Unpaid Principal Balance of Note	Name of Person Making Notation
				Principal	Interest		

EXHIBIT C

FORM OF
ASSIGNMENT AND ACCEPTANCE

Reference is made to the Amended and Restated Credit Agreement dated as of November __, 2016 (as amended, modified, extended or restated from time to time, the "Agreement"), among Aqua Pennsylvania, Inc. (the "Borrower"), the banks party thereto (the "Banks") and PNC Bank, National Association, as Agent. Terms defined in the Agreement are used herein with the same meanings.

_____ (the "Assignor") and _____ (the "Assignee") hereby agree as follows:

The Assignor hereby sells and assigns, without recourse, to the Assignee, and the Assignee hereby purchases and assumes, without recourse, from the Assignor, effective as of the Effective Date set forth on Schedule A attached hereto, the interests set forth on Schedule A (the "Assigned Interest") in the Assignor's rights and obligations under the Agreement, including, without limitation, the interests set forth on Schedule A in the Commitment of the Assignor on the Effective Date and the Loans owing to the Assignor which are outstanding on the Effective Date, together with unpaid interest accrued on the assigned Loans to the Effective Date and the amount, if any, set forth on Schedule A of the Fees accrued to the Effective Date for the account of the Assignor. Each of the Assignor and the Assignee hereby makes and agrees to be bound by all the representations, warranties and agreements set forth in Section 9.6(c) of the Agreement, a copy of which has been received by each such party. From and after the Effective Date (i) the Assignee shall be a party to and be bound by the provisions of the Agreement and, to the extent of the interests assigned by this Assignment and Acceptance, have the rights and obligations of a Bank thereunder and under the Agreement or any other document issued in connection therewith and (ii) the Assignor shall, to the extent of the interests assigned by this Assignment and Acceptance, relinquish its rights and be released from its obligations under this Agreement.

This Assignment and Acceptance is being delivered to the Agent together with (i) the Notes evidencing the Loans included in the Assigned Interest, (ii) if the Assignee is organized under the laws of a jurisdiction outside the United States, the forms prescribed by the Internal Revenue Service of the United States certifying as to the Assignee's exemption from withholding taxes with respect to all payments to be made to the Assignee under the Agreement or such other documents as are necessary to indicate that all such payments are subject to such tax at a rate reduced by an applicable tax treaty, all duly completed and executed by such Assignee, and (iii) a processing and recordation fee of $3,500, if required.

This Assignment and Acceptance shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania.

The terms set forth above and on Schedule A attached hereto are hereby agreed to as of the date hereof.

_____, as Assignor

By: _____
Name:
Title:

_____, as Assignee

By: _____
Name:
Title:

Acknowledged:

PNC BANK, NATIONAL ASSOCIATION,
as Agent

By: _____
Name:
Title:

Consented to:

AQUA PENNSYLVANIA, INC.

By: _____
Name:
Title:

SCHEDULE A

Date of Assignment:

Legal Name of Assignor:

Legal Name of Assignee:

Assignee's Address for Notices:

_____
_____
Attention: _____
Telecopy: _____

Effective Date of Assignment
(may not be fewer than 5 Business
Days after the Date of Assignment): _____

Revolving Credit Facility	Principal Amount Assigned	Percentage of Loans and Commitment Assigned
Commitment Assigned:	$	%
Revolving Credit Loans:	$	%

Swing Loan Facility	Principal Amount Assigned	Percentage of Loans and Commitment Assigned
Commitment Assigned:	$	100%
Swing Line Loans:	$	100%

Exhibit 10.8

AQUA AMERICA, INC.

2009 OMNIBUS EQUITY COMPENSATION PLAN

As Amended as of February 22, 2017

AQUA AMERICA, INC.

2009 OMNIBUS EQUITY COMPENSATION PLAN

The purpose of the Aqua America, Inc. 2009 Omnibus Equity Compensation Plan (the "Plan") is to provide (i) designated employees of Aqua America, Inc. (the "Company") and its subsidiaries, (ii) certain consultants and advisors who perform services for the Company or its subsidiaries, and (iii) non-employee members of the Board of Directors of the Company with the opportunity to receive grants of incentive stock options, nonqualified stock options, stock appreciation rights, stock awards, stock units and other stock-based awards. The Company believes that the Plan will encourage the participants to contribute to the success of the Company, align the economic interests of the participants with those of the shareholders, and provide a means through which the Company can attract and retain officers, other key employees, non-employee directors and key consultants of significant talent and abilities for the benefit of our shareholders and customers. The Plan became effective as of May 8, 2009, subject to approval by the shareholders of the Company, and was amended as of February 25, 2011. The Plan was further amended as of September 1, 2013 to reflect the 25% stock split, effective as of September 1, 2013 (the "2013 Stock Split"), and further amended and restated as of February 27, 2014. The Plan is hereby amended and restated on February 22, 2017 to permit share withholding for tax purposes in excess of statutory minimum requirements. Unless otherwise provided in the Plan, changes made pursuant to this amendment and restatement shall apply to awards granted on or after February 22, 2017.

Section 1. Definitions

The following terms shall have the meanings set forth below for purposes of the Plan:

(a) "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Exchange Act.

(b) A Person shall be deemed a "Beneficial Owner" of any securities:

(i) that such Person or any of such Person's Affiliates or Associates, directly or indirectly, has the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding (whether or not in writing) or upon the exercise of conversion rights, exchange rights, rights, warrants or options, or otherwise; provided, however, that a Person shall not be deemed the "Beneficial Owner" of securities tendered pursuant to a tender or exchange offer made by such Person or any of such Person's Affiliates or Associates until such tendered securities are accepted for payment, purchase or exchange;

(ii) that such Person or any of such Person's Affiliates or Associates, directly or indirectly, has the right to vote or dispose of or has "beneficial ownership" of (as determined pursuant to Rule 13d-3 of the General Rules and Regulations under the Exchange Act), including without limitation pursuant to any agreement, arrangement or understanding, whether or not in writing; provided, however, that a Person shall not be deemed the "Beneficial Owner" of any security under this clause (ii) as a result of an oral or written agreement, arrangement or understanding to vote such security if such agreement, arrangement or understanding (A) arises

solely from a revocable proxy given in response to a public proxy or consent solicitation made pursuant to, and in accordance with, the applicable provisions of the General Rules and Regulations under the Exchange Act, and (B) is not then reportable by such Person on Schedule 13D under the Exchange Act (or any comparable or successor report); or

(iii) that are beneficially owned, directly or indirectly, by any other Person (or any Affiliate or Associate thereof) with which such Person (or any of such Person's Affiliates or Associates) has any agreement, arrangement or understanding (whether or not in writing) for the purpose of acquiring, holding, voting (except pursuant to a revocable proxy as described in the proviso to clause (ii) above) or disposing of any voting securities of the Company; provided, however, that nothing in this subsection (b) shall cause a Person engaged in business as an underwriter of securities to be the "Beneficial Owner" of any securities acquired through such Person's participation in good faith in a firm commitment underwriting until the expiration of forty days after the date of such acquisition.

(c) "Board" shall mean the Board of Directors of the Company.

(d) "Cause" shall mean, except to the extent specified otherwise by the Committee, a finding by the Committee that the Grantee (i) has breached his or her employment or service contract with the Employer, (ii) has engaged in disloyalty to the Employer, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty, (iii) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information, (iv) has breached any written non-competition, non-solicitation or confidentiality agreement between the Grantee and the Employer or (v) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

(e) "Change in Control" shall be deemed to have occurred if:

(i) any Person, together with all Affiliates and Associates of such Person, shall become the Beneficial Owner in the aggregate of 20% or more of the Company Stock then outstanding;

(ii) during any twenty-four month period, individuals who at the beginning of such period constitute the Board cease for any reason to constitute a majority thereof, unless the election, or the nomination for election by the Company's shareholders, of at least seventy-five percent of the directors who were not directors at the beginning of such period was approved by a vote of at least seventy-five percent of the directors in office at the time of such election or nomination who were directors at the beginning of such period; or

(iii) there occurs a sale of 50% or more of the aggregate assets or earning power of the Company and its subsidiaries, or its liquidation is approved by a majority of its shareholders or the Company is merged into or is merged with an unrelated entity such that following the merger, the shareholders of the Company no longer own more than 50% of the resultant entity.

Notwithstanding anything in this subsection (e) to the contrary, a Change in Control shall not be deemed to have taken place under clause (e)(i) above if (A) such Person becomes the Beneficial Owner in the aggregate of 20% or more of the Company Stock then outstanding as

a result, in the determination of a majority of those members of the Board in office prior to the acquisition, of an inadvertent acquisition by such Person if such Person, as soon as practicable, divests itself of a sufficient amount of its Company Stock so that it no longer owns 20% or more of the Company Stock then outstanding, or (B) such Person becomes the Beneficial Owner in the aggregate of 20% or more of the Company Stock outstanding as a result of an acquisition of Company Stock by the Company which, by reducing the number of shares of Company Stock outstanding, increases the proportionate number of shares of Company Stock beneficially owned by such Person to 20% or more of the shares of Company Stock then outstanding; provided, however that if a Person shall become the Beneficial Owner of 20% or more of the shares of Company Stock then outstanding by reason of Company Stock purchased by the Company and shall, after such share purchases by the Company become the Beneficial Owner of any additional shares of Company Stock, then the exemption set forth in this clause shall be inapplicable.

(f) "Code" shall mean the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

(g) "Committee" shall mean the committee, consisting of members of the Board, designated by the Board to administer the Plan.

(h) "Company" shall mean Aqua America, Inc. and shall include its successors.

(i) "Company Stock" shall mean common stock of the Company.

(j) "Disability" or "Disabled" shall mean a Grantee's becoming disabled within the meaning of section 22(e)(3) of the Code, within the meaning of the Employer's long-term disability plan applicable to the Grantee or as otherwise determined by the Committee.

(k) "Dividend" shall mean a dividend paid on shares of Company Stock. If interest is credited on accumulated dividends, the term "Dividend" shall include the accrued interest.

(l) "Dividend Equivalent" shall mean a dividend payable on a hypothetical share of Company Stock.

(m) "Dividend Equivalent Amount" shall mean an amount determined by multiplying the number of Dividend Equivalents subject to a Grant by the per-share cash Dividend paid by the Company on its outstanding Company Stock, or the per-share fair market value (as determined by the Committee) of any Dividend paid by the Company on its outstanding Company Stock in consideration other than cash, with respect to each record date for the payment of a dividend during the Accumulation Period described in Section 11(a)(i). If interest is credited on accumulated Dividend Equivalents, the term "Dividend Equivalent Amount" shall include the accrued interest.

(n) "Early Retirement" shall mean, except as otherwise provided in the Grant Instrument, termination of a Grantee's employment that occurs on or after the date that the Grantee becomes eligible for early retirement pursuant to the terms of the Pension Plan; provided, however, that if a Grantee is not an active participant in the Pension Plan immediately prior to terminating employment, "Early Retirement" shall mean, except as otherwise provided

in the Grant Instrument, termination of a Grantee's employment that occurs on or after the date that a Grantee is first eligible for Social Security retirement benefits and has completed at least 10 years of service as would be determined for vesting purposes under the Pension Plan.

(o) "Employee" shall mean an employee of the Company or a subsidiary of the Company.

(p) "Employed by, or providing service to, the Employer" shall mean employment or service as an Employee, Key Advisor or member of the Board (so that, for purposes of exercising Options and SARs and satisfying conditions with respect to Stock Awards and Performance Units, a Grantee shall not be considered to have terminated employment or service until the Grantee ceases to be an Employee, Key Advisor and member of the Board).

(q) "Employer" shall mean the Company and each of its subsidiaries.

(r) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(s) "Exercise Price" shall mean the per share price at which shares of Company Stock may be purchased under an Option, as designated by the Committee.

(t) "Fair Market Value" of Company Stock means, unless the Committee determines otherwise with respect to a particular Grant, (i) if the principal trading market for the Company Stock is a national securities exchange, the last reported sale price of Company Stock on the relevant date or (if there were no trades on that date) the latest preceding date upon which a sale was reported, (ii) if the Company Stock is not principally traded on such exchange, the mean between the last reported "bid" and "asked" prices of Company Stock on the relevant date, as reported on the OTC Bulletin Board, or (iii) if the Company Stock is not publicly traded or, if publicly traded, is not subject to reported transactions as set forth above, the Fair Market Value per share shall be as determined by the Committee through any reasonable valuation method authorized under the Code.

(u) "Grant" shall mean a grant of Options, SARs, Stock Awards, Stock Units or Other Stock-Based Awards under the Plan.

(v) "Grant Instrument" shall mean the agreement that sets forth the terms and conditions of a Grant, including all amendments thereto.

(w) "Grantee" shall mean an Employee, Key Advisor or Non-Employee Director who receives a Grant under the Plan.

(x) "Incentive Stock Option" shall mean an option to purchase Company Stock that is intended to meet the requirements of section 422 of the Code.

(y) "Key Advisor" shall mean a consultant or advisor of an Employer.

(z) "Non-Employee Director" shall mean a member of the Board who is not an Employee.

(aa) "Nonqualified Stock Option" shall mean an option to purchase Company Stock that is not intended to meet the requirements of section 422 of the Code.

(bb) "Normal Retirement" shall mean, except as otherwise provided in the Grant Instrument, termination of a Grantee's employment on or after the date a Grantee first satisfies the conditions for normal retirement benefits under the terms of the Pension Plan, whether or not the Grantee is covered by the Pension Plan.

(cc) "Option" shall mean an Incentive Stock Option or a Nonqualified Stock Option granted under the Plan.

(dd) "Other Stock-Based Award" shall mean any Grant based on, measured by or payable in Company Stock, as described in Section 10.

(ee) "Pension Plan" shall mean the Retirement Income Plan for Aqua America, Inc. and Subsidiaries, as in effect from time to time.

(ff) "Person" shall mean any individual, firm, corporation, partnership or other entity except the Company, any subsidiary of the Company, any employee benefit plan of the Company or of any subsidiary, or any Person or entity organized, appointed or established by the Company for or pursuant to the terms of any such employee benefit plan.

(gg) "SAR" shall mean a stock appreciation right with respect to a share of Company Stock.

(hh) "Stock Award" shall mean an award of Company Stock, with or without restrictions.

(ii) "Stock Unit" shall mean an award of a phantom unit that represents a hypothetical share of Company Stock.

Section 2. Administration

(a) Committee. The Plan shall be administered and interpreted by the Board or by a Committee appointed by the Board. The Committee, if applicable, should consist of two or more persons who are "outside directors" as defined under section 162(m) of the Code, and related Treasury regulations, and "non-employee directors" as defined under Rule 16b-3 under the Exchange Act. The Board shall approve and administer all grants made to Non-Employee Directors. The Committee may delegate authority to one or more subcommittees, as it deems appropriate. To the extent that the Board or a subcommittee administers the Plan, references in the Plan to the "Committee" shall be deemed to refer to the Board or such subcommittee. In the absence of a specific designation by the Board to the contrary, the Plan shall be administered by the Committee of the Board or any successor Board committee performing substantially the same functions.

(b) Committee Authority. The Committee shall have the sole authority to (i) determine the individuals to whom grants shall be made under the Plan, (ii) determine the type, size, terms and conditions of the grants to be made to each such individual, (iii) determine the

time when the grants will be made and the duration of any applicable exercise or restriction period, including the criteria for exercisability and the acceleration of exercisability, (iv) amend the terms and conditions of any previously issued grant, subject to the provisions of Section 17 below, and (v) deal with any other matters arising under the Plan.

(c) Committee Determinations. The Committee shall have full power and express discretionary authority to administer and interpret the Plan, to make factual determinations and to adopt or amend such rules, regulations, agreements and instruments for implementing the Plan and for the conduct of its business as it deems necessary or advisable, in its sole discretion. The Committee's interpretations of the Plan and all determinations made by the Committee pursuant to the powers vested in it hereunder shall be conclusive and binding on all persons having any interest in the Plan or in any awards granted hereunder. All powers of the Committee shall be executed in its sole discretion, in the best interest of the Company, not as a fiduciary, and in keeping with the objectives of the Plan and need not be uniform as to similarly situated individuals.

Section 3. Grants

Awards under the Plan may consist of grants of Options as described in Section 6, Stock Awards as described in Section 7, Stock Units as described in Section 8, SARs as described in Section 9 and Other Stock-Based Awards as described in Section 10. All Grants shall be subject to the terms and conditions set forth herein and to such other terms and conditions consistent with this Plan as the Committee deems appropriate and as are specified in writing by the Committee to the individual in the Grant Instrument. All Grants shall be made conditional upon the Grantee's acknowledgement, in writing or by acceptance of the Grant, that all decisions and determinations of the Committee shall be final and binding on the Grantee, his or her beneficiaries and any other person having or claiming an interest under such Grant. Grants under a particular Section of the Plan need not be uniform as among the Grantees.

Section 4. Shares Subject to the Plan

(a) Shares Authorized. Subject to adjustment as described in subsection (d) below, the aggregate number of shares of Company Stock that may be issued or transferred under the Plan, as adjusted for the 2013 Stock Split, is 6,250,000 shares. Shares issued or transferred under the Plan may be authorized but unissued shares of Company Stock or reacquired shares of Company Stock, including shares purchased by the Company on the open market for purposes of the Plan. If and to the extent Options or SARs granted under the Plan terminate, expire or are canceled, forfeited, exchanged or surrendered without having been exercised or if any Stock Awards, Stock Units or Other Stock-Based Awards are forfeited, terminated or otherwise not paid in full, the shares subject to such Grants shall again be available for purposes of the Plan. For the avoidance of doubt, if shares of Company Stock are repurchased by the Company on the open market with the proceeds of the exercise price of Options, such shares may not again be made available for issuance under the Plan.

(b) Limit on Stock Awards, Stock Units and Other Stock-Based Awards. Within the aggregate limit described in subsection (a), the maximum number of shares of Company Stock that may be issued under the Plan pursuant to Stock Awards, Stock Units and Other Stock-Based

Awards during the term of the Plan, as adjusted for the 2013 Stock Split, is 3,125,000 shares subject to adjustment as described in subsection (d) below.

(c) Individual Limits. All Grants under the Plan shall be expressed in shares of Company Stock. During any calendar year, no individual may be granted: (i) Options and SARs under the Plan for more than 500,000 shares of Company Stock in the aggregate or (ii) Stock Awards, Stock Units or Other Stock-Based Awards under the Plan for more than 500,000 shares of Company Stock in the aggregate. The foregoing limits of this subsection (c) have been adjusted for the 2013 Stock Split and shall apply without regard to whether the Grants are to be paid in Company Stock or cash and shall be subject to adjustment as described in subsection (d) below. All cash payments with respect to Grants (other than with respect to Dividend Equivalents or Dividends) shall equal the Fair Market Value of the shares of Company Stock to which the cash payments relate. An individual may not accrue Dividend Equivalents and Dividends on performance-based Grants described in Section 12 during any calendar year in excess of $600,000.

(d) Adjustments. If there is any change in the number or kind of shares of Company Stock outstanding by reason of (i) a stock dividend, spinoff, recapitalization, stock split, or combination or exchange of shares, (ii) a merger, reorganization or consolidation, (iii) a reclassification or change in par value, or (iv) any other extraordinary or unusual event affecting the outstanding Company Stock as a class without the Company's receipt of consideration, or if the value of outstanding shares of Company Stock is substantially reduced as a result of a spinoff or the Company's payment of an extraordinary dividend or distribution, the maximum number of shares of Company Stock available for issuance under the Plan, the maximum number of shares of Company Stock for which any individual may receive Grants in any year, the kind and number of shares covered by outstanding Grants, the kind and number of shares issued and to be issued under the Plan, and the price per share or the applicable market value of such Grants shall be equitably adjusted by the Committee, in such manner as the Committee deems appropriate, to reflect any increase or decrease in the number of, or change in the kind or value of, the issued shares of Company Stock to preclude, to the extent practicable, the enlargement or dilution of rights and benefits under the Plan and such outstanding Grants; provided, however, that any fractional shares resulting from such adjustment shall be eliminated. In connection with adjustments described in this Section 4(d), in order to eliminate fractional shares, the number of shares of Company Stock subject to outstanding Grants may be rounded up or down, as determined by the Committee, in its sole discretion, subject to compliance with sections 162(m), 424 and 409A of the Code, as applicable, and the applicable limitations on shares of Company Stock under the Plan. In the event of a Change in Control of the Company, the provisions of Section 15 of the Plan shall apply. Any adjustments to outstanding Grants shall be consistent with section 409A or 422 of the Code, to the extent applicable. Any adjustments determined by the Committee shall be final, binding and conclusive.

Section 5. Eligibility for Participation

(a) Eligible Persons. All Employees (including, for all purposes of the Plan, an Employee who is a member of the Board) and Non-Employee Directors shall be eligible to participate in the Plan. Key Advisors shall be eligible to participate in the Plan if the Key Advisors render bona fide services to the Employer, the services are not in connection with the

offer and sale of securities in a capital-raising transaction and the Key Advisors do not directly or indirectly promote or maintain a market for the Company's securities.

(b) Selection of Grantees. The Committee shall select the Employees, Key Advisors and Non-Employee Directors to receive Grants and shall determine the number of shares of Company Stock subject to a particular Grant in such manner as the Committee determines.

Section 6. Options

The Committee may grant Options to an Employee, Key Advisor or Non-Employee Director upon such terms as the Committee deems appropriate. The following provisions are applicable to Options:

(a) Number of Shares. The Committee shall determine the number of shares of Company Stock that will be subject to each Grant of Options to Employees, Key Advisors and Non-Employee Directors.

(b) Type of Option and Price.

(i) The Committee may grant Incentive Stock Options or Nonqualified Stock Options or any combination of the two, all in accordance with the terms and conditions set forth herein. Incentive Stock Options may be granted only to employees of the Company or its parent or subsidiary corporations, as defined in section 424 of the Code. Nonqualified Stock Options may be granted to Employees and Non-Employee Directors.

(ii) The Exercise Price of Company Stock subject to an Option shall be determined by the Committee and shall be equal to or greater than the Fair Market Value of a share of Company Stock on the date the Option is granted. However, an Incentive Stock Option may not be granted to an Employee who, at the time of grant, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company, or any parent or subsidiary corporation of the Company, as defined in section 424 of the Code, unless the Exercise Price per share is not less than 110% of the Fair Market Value of a share of Company Stock on the date of grant.

(c) Option Term. The Committee shall determine the term of each Option. The term of any Option shall not exceed ten years from the date of grant. However, an Incentive Stock Option that is granted to an Employee who, at the time of grant, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company, or any parent or subsidiary corporation of the Company, as defined in section 424 of the Code, may not have a term that exceeds five years from the date of grant.

(d) Exercisability of Options.

(i) Options shall become exercisable in accordance with such terms and conditions, consistent with the Plan, as may be determined by the Committee and specified in the Grant Instrument. The Committee may accelerate the exercisability of any or all outstanding Options at any time for any reason.

(ii) The Committee may provide in a Grant Instrument that the Grantee may elect to exercise part or all of an Option before it otherwise has become exercisable. Any shares so purchased shall be restricted shares and shall be subject to a repurchase right in favor of the Company during the same period as would be required to vest in the underlying Option, with the repurchase price equal to the lesser of (A) the Exercise Price or (B) the Fair Market Value of such shares at the time of repurchase, or such other restrictions as the Committee deems appropriate.

(e) Grants to Non-Exempt Employees. Notwithstanding the foregoing, Options granted to persons who are non-exempt employees under the Fair Labor Standards Act of 1938, as amended, may not be exercisable for at least six months after the date of grant (except that such Options may become exercisable, as determined by the Committee, upon the Grantee's death, Disability or retirement, or upon a Change in Control or other circumstances permitted by applicable regulations).

(f) Termination of Employment.

(i) Except as otherwise provided by the Committee, an Option may only be exercised while the Grantee is employed by, or providing service to, the Employer as an Employee, Key Advisor or member of the Board.

(ii) The Committee may specify in the Grant Instrument such terms as the Committee deems appropriate with respect to the exercise of Options after termination of employment or service. Except as otherwise provided by the Committee, any of the Grantee's Options which are not otherwise exercisable as of the date on which the Grantee ceases to be employed by, or provide service to, the Employer shall terminate as of such date. In addition, notwithstanding any other provisions of this Section 6, if the Committee determines that the Grantee has engaged in conduct that constitutes Cause at any time while the Grantee is employed by, or providing service to, the Employer or after the Grantee's termination of employment or service, any Option held by the Grantee shall immediately terminate and the Grantee shall automatically forfeit all shares underlying any exercised portion of an Option for which the Company has not yet delivered the share certificates, upon refund by the Company of the Exercise Price paid by the Grantee for such shares. Upon any exercise of an Option, the Company may withhold delivery of share certificates pending resolution of an inquiry that could lead to a finding resulting in a forfeiture.

(g) Exercise of Options. A Grantee may exercise an Option that has become exercisable, in whole or in part, by delivering a notice of exercise to the Company. The Grantee shall pay the Exercise Price for an Option as specified by the Committee (i) in cash, (ii) unless the Committee determines otherwise, by delivering shares of Company Stock owned by the Grantee and having a Fair Market Value on the date of exercise at least equal to the Exercise Price or by attestation (on a form prescribed by the Committee) to ownership of shares of Company Stock having a Fair Market Value on the date of exercise at least equal to the Exercise Price, (iii) by payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board, or (iv) by such other method as the Committee may approve. Shares of Company Stock used to exercise an Option shall have been held by the Grantee for the requisite period of time necessary to avoid adverse accounting consequences to the Company

with respect to the Option. Payment for the shares to be issued or transferred pursuant to the Option, and any required withholding taxes, must be received by the Company by the time specified by the Company depending on the type of payment being made, but in all cases prior to the issuance or transfer of such shares.

(h) Limits on Incentive Stock Options. Each Incentive Stock Option shall provide that, if the aggregate Fair Market Value of the Company Stock on the date of the grant with respect to which Incentive Stock Options are exercisable for the first time by a Grantee during any calendar year, under the Plan or any other stock option plan of the Company or a parent or subsidiary, exceeds $100,000, then the Option, as to the excess, shall be treated as a Nonqualified Stock Option. An Incentive Stock Option shall not be granted to any person who is not an Employee of the Company or a parent or subsidiary corporation (within the meaning of section 424(f) of the Code) of the Company.

(i) Restrictive Covenants Agreement. All unexercised Options following the date a Grantee ceases to be employed by, or provide service to, the Employer on account of Early Retirement or Normal Retirement shall be forfeited if, during the thirty-eight (38)-month period following such termination of employment or service, the Grantee violates the terms of any written invention assignment, non-competition, non-solicitation or confidentiality agreement between the Grantee and the Employer, except as otherwise provided in the Grant Instrument.

Section 7. Stock Awards

The Committee may issue or transfer shares of Company Stock to an Employee, Key Advisor or Non-Employee Director under a Stock Award, upon such terms as the Committee deems appropriate. The following provisions are applicable to Stock Awards:

(a) General Requirements. Shares of Company Stock issued or transferred pursuant to Stock Awards may be issued or transferred for consideration or for no consideration, and subject to restrictions or no restrictions, as determined by the Committee. The Committee may, but shall not be required to, establish conditions under which restrictions on Stock Awards shall lapse over a period of time, at a particular date or according to such other criteria as the Committee deems appropriate, including, without limitation, restrictions based upon the achievement of specific performance goals. The period of time during which the Stock Awards will remain subject to restrictions will be designated in the Grant Instrument as the "Restriction Period."

(b) Number of Shares. The Committee shall determine the number of shares of Company Stock to be issued or transferred pursuant to a Stock Award and the restrictions applicable to such shares.

(c) Requirement of Employment or Service. If the Grantee ceases to be employed by, or provide service to, the Employer during a period designated in the Grant Instrument as the Restriction Period, or if other specified conditions are not met, the Stock Award shall terminate as to all shares covered by the Grant as to which the restrictions have not lapsed, and those shares of Company Stock must be immediately returned to the Company. The Committee may, however, provide for complete or partial exceptions to this requirement as it deems appropriate.

(d) Restrictions on Transfer and Legend on Stock Certificate. During the Restriction Period, a Grantee may not sell, assign, transfer, pledge or otherwise dispose of the shares of a Stock Award except under Section 14(a) below. Unless otherwise determined by the Committee, the Company will retain possession of certificates for shares of Stock Awards until all restrictions on such shares have lapsed. Each certificate for a Stock Award, unless held by the Company, shall contain a legend giving appropriate notice of the restrictions in the Grant. The Grantee shall be entitled to have the legend removed from the stock certificate covering the shares subject to restrictions when all restrictions on such shares have lapsed. The Committee may determine that the Company will not issue certificates for Stock Awards until all restrictions on such shares have lapsed.

(e) Right to Vote and to Receive Dividends. Unless the Committee determines otherwise, during the Restriction Period, the Grantee shall have the right to vote shares of Stock Awards and to receive any Dividends or other distributions paid on such shares, subject to any restrictions deemed appropriate by the Committee; provided that any dividends with respect to performance-based Stock Awards shall be withheld and shall be payable only if and to the extent that the restrictions on the underlying Stock Awards lapse, as determined by the Committee.

(f) Lapse of Restrictions. All restrictions imposed on Stock Awards shall lapse upon the expiration of the applicable Restriction Period and the satisfaction of all conditions, if any, imposed by the Committee. The Committee may determine, as to any or all Stock Awards, that the restrictions shall lapse without regard to any Restriction Period.

(g) Restrictive Covenants Agreement. All Stock Awards with respect to which the applicable restrictions have not lapsed following the date a Grantee ceases to be employed by, or provide service to, the Employer on account of Early Retirement or Normal Retirement shall be forfeited if, during the Restriction Period, the Grantee violates the terms of any written invention assignment, non-competition, non-solicitation or confidentiality agreement between the Grantee and the Employer, except as otherwise provided in the Grant Instrument.

Section 8. Stock Units

The Committee may grant Stock Units, each of which shall represent one hypothetical share of Company Stock, to an Employee, Key Advisor or Non-Employee Director, upon such terms and conditions as the Committee deems appropriate. The following provisions are applicable to Stock Units:

(a) Crediting of Units. Each Stock Unit shall represent the right of the Grantee to receive a share of Company Stock or an amount of cash based on the value of a share of Company Stock, if and when specified conditions are met. All Stock Units shall be credited to bookkeeping accounts established on the Company's records for purposes of the Plan.

(b) Terms of Stock Units. The Committee may grant Stock Units that are payable if specified performance goals or other conditions are met, or under other circumstances. Stock Units may be paid at the end of a specified performance period or other period, or payment may be deferred to a date authorized by the Committee. The Committee shall determine the number of Stock Units to be granted and the requirements applicable to such Stock Units.

(c) Requirement of Employment or Service. If the Grantee ceases to be employed by, or provide service to, the Employer prior to the vesting of Stock Units, or if other conditions established by the Committee are not met, the Grantee's Stock Units shall be forfeited. The Committee may, however, provide for complete or partial exceptions to this requirement as it deems appropriate.

(d) Payment With Respect to Stock Units. Payments with respect to Stock Units shall be made in cash, Company Stock or any combination of the foregoing, as the Committee shall determine.

(e) Restrictive Covenants Agreement. All Stock Units with respect to which the applicable restrictions have not lapsed or which have not yet been paid following the date a Grantee ceases to be employed by, or provide service to, the Employer on account of Early Retirement or Normal Retirement shall be forfeited if, during the period of time during which the Stock Units remain subject to restrictions, the Grantee violates the terms of any written invention assignment, non-competition, non-solicitation or confidentiality agreement between the Grantee and the Employer, except as otherwise provided in the Grant Instrument.

Section 9. Stock Appreciation Rights

The Committee may grant SARs to an Employee, Key Advisor or Non-Employee Director separately or in tandem with any Option. The following provisions are applicable to SARs:

(a) General Requirements. The Committee may grant SARs to an Employee, Key Advisor or Non-Employee Director separately or in tandem with any Option (for all or a portion of the applicable Option). Tandem SARs may be granted either at the time the Option is granted or at any time thereafter while the Option remains outstanding; provided, however, that, in the case of an Incentive Stock Option, SARs may be granted only at the time of the Grant of the Incentive Stock Option. The Committee shall establish the base amount of the SAR at the time the SAR is granted. The base amount of each SAR shall be equal to the per share Exercise Price of the related Option or, if there is no related Option, an amount equal to or greater than the Fair Market Value of a share of Company Stock as of the date of Grant of the SAR.

(b) Tandem SARs. In the case of tandem SARs, the number of SARs granted to a Grantee that shall be exercisable during a specified period shall not exceed the number of shares of Company Stock that the Grantee may purchase upon the exercise of the related Option during such period. Upon the exercise of an Option, the SARs relating to the Company Stock covered by such Option shall terminate. Upon the exercise of SARs, the related Option shall terminate to the extent of an equal number of shares of Company Stock.

(c) Exercisability. An SAR shall be exercisable during the period specified by the Committee in the Grant Instrument and shall be subject to such vesting and other restrictions as may be specified in the Grant Instrument. The Committee may accelerate the exercisability of any or all outstanding SARs at any time for any reason. SARs may only be exercised while the Grantee is employed by, or providing service to, the Employer or during the applicable period

after termination of employment or service determined by the Committee. A tandem SAR shall be exercisable only during the period when the Option to which it is related is also exercisable.

(d) Grants to Non-Exempt Employees. Notwithstanding the foregoing, SARs granted to persons who are non-exempt employees under the Fair Labor Standards Act of 1938, as amended, may not be exercisable for at least six months after the date of grant (except that such SARs may become exercisable, as determined by the Committee, upon the Grantee's death, Disability or retirement, or upon a Change in Control or other circumstances permitted by applicable regulations).

(e) Value of SARs. When a Grantee exercises SARs, the Grantee shall receive in settlement of such SARs an amount equal to the value of the stock appreciation for the number of SARs exercised. The stock appreciation for an SAR is the amount by which the Fair Market Value of the underlying Company Stock on the date of exercise of the SAR exceeds the base amount of the SAR as described in subsection (a).

(f) Form of Payment. The appreciation in an SAR shall be paid in shares of Company Stock, cash or any combination of the foregoing, as the Committee shall determine. For purposes of calculating the number of shares of Company Stock to be received, shares of Company Stock shall be valued at their Fair Market Value on the date of exercise of the SAR.

(g) Restrictive Covenants Agreement. All unexercised SARs following the date a Grantee ceases to be employed by, or provide service to, the Employer on account of Early Retirement or Normal Retirement shall be forfeited if, during the thirty-eight (38)-month period following such termination of employment or service, the Grantee violates the terms of any written invention assignment, non-competition, non-solicitation or confidentiality agreement between the Grantee and the Employer, except as otherwise provided in the Grant Instrument.

Section 10. Other Stock-Based Awards

The Committee may grant Other Stock-Based Awards, which are awards (other than those described in Sections 6, 7, 8 and 9 of the Plan) that are based on or measured by Company Stock, to any Employee, Key Advisor or Non-Employee Director, on such terms and conditions as the Committee shall determine. Other Stock-Based Awards may be awarded subject to the achievement of performance goals or other conditions and may be payable in cash, Company Stock or any combination of the foregoing, as the Committee shall determine.

Section 11. Dividend Equivalents

The Committee may grant Dividend Equivalents alone or in connection with Stock Units or Other Stock-Based Awards to an Employee, Key Advisor or Non-Employee Director. The Committee may grant Dividend Equivalents on the terms described in subsections (a) through (e) below or on such other terms and conditions as the Committee deems appropriate; provided that any Dividend Equivalents granted in connection with performance-based Stock Units or Other Stock-Based Awards shall be withheld and shall be payable only if and to the extent that the restrictions on the related Stock Units or Other Stock-Based Awards lapse, as determined by the Committee. Except as otherwise provided in the Grant Instrument, the following provisions may be applicable to Dividend Equivalents:

(a) Amount of Dividend Equivalent Credited. The Company shall credit to an account for each Grantee maintained by the Company in its books and records on each record date the Dividend Equivalent Amount for each Grantee attributable to each record date, from the date of grant until the earliest of the date of:

(i) the end of the applicable accumulation period designated by the Committee at the time of grant (the "Accumulation Period"),

(ii) the date the Grantee ceases to be employed by, or provide service to, the Employer for any reason, or as otherwise determined by the Committee, or

(iii) the end of the period of four years from the date of the grant.

The Company shall maintain in its books and records separate accounts which identify the Dividend Equivalent Amounts for each Grantee, reduced by all amounts paid pursuant to subsection (b) below. No interest shall be credited to any such account. The amount of Dividend Equivalents credited pursuant to this subsection (a) shall be deemed a separate payment for purposes of section 409A of the Code.

(b) Payment of Credited Dividend Equivalents. Except with respect to Dividend Equivalents granted in connection with performance-based Stock Units or Other Stock-Based Awards, any Dividend Equivalent Amounts accrued in an account between the date of grant to March 1 of the following year shall be distributed to the Grantee no later than March 15 of the year following the date of grant, subject to subsection (c) below, and any Dividend Equivalent Amounts accrued in an account from March 2 of the year following the date of grant (or any anniversary thereof) through March 1 of the following year shall be distributed to the Grantee no later than March 15 of such following year, subject to subsection (c) below. Notwithstanding the foregoing, except as otherwise determined by the Committee, if a Change in Control occurs while the Grantee is employed by, or providing service to, the Employer, any Dividend Equivalent Amounts or portion thereof, which have not, prior to such date, been paid to the Grantee or forfeited shall be paid to the Grantee within sixty (60) days following the consummation of the Change in Control, subject to compliance with section 409A of the Code.

(c) Forfeiture of Dividend Equivalents. Except as otherwise determined by the Committee, payment of Dividend Equivalent Amounts for any accrual period ending on March 1 as described in subsection (b) above shall be forfeited by the Grantee if the Grantee is not employed by, or providing service to, the Employer on March 1 of such accrual period. Dividend Equivalent Amounts payable pursuant to Dividend Equivalents granted in connection with performance-based Stock Units or Other Stock-Based Awards shall be distributed to the Grantee at the time the underlying Stock Units or Other Stock-Based Awards are paid, to the extent that such Grants become payable.

(d) Form of Payment. All Dividend Equivalent Amounts shall be paid solely in cash.

(e) Restrictive Covenants Agreement. All unpaid Dividend Equivalent Amounts following the date a Grantee ceases to be employed by, or provide service to, the Employer on account of Early Retirement or Normal Retirement shall be forfeited if, during the applicable Accumulation Period, the Grantee violates the terms of any written invention assignment, non-

competition, non-solicitation or confidentiality agreement between the Grantee and the Employer, except as otherwise provided in the Grant Instrument.

Section 12. Qualified Performance-Based Compensation

The Committee may determine that Stock Awards, Stock Units, Other Stock-Based Awards and Dividend Equivalents granted to an Employee shall be considered "qualified performance-based compensation" under section 162(m) of the Code. The following provisions shall apply to Grants of Stock Awards, Stock Units, Other Stock-Based Awards and Dividend Equivalents that are to be considered "qualified performance-based compensation" under section 162(m) of the Code:

(a) Performance Goals.

(i) When Stock Awards, Stock Units, Other Stock-Based Awards or Dividend Equivalents that are to be considered "qualified performance-based compensation" are granted, the Committee shall establish in writing (A) the objective performance goals that must be met, (B) the performance period during which the performance will be measured, (C) the threshold, target and maximum amounts that may be paid if the performance goals are met, and (D) any other conditions that the Committee deems appropriate and consistent with the Plan and section 162(m) of the Code.

(ii) The business criteria may relate to the Grantee's business unit or the performance of the Company and its parents and subsidiaries as a whole, or any combination of the foregoing. The Committee shall use objectively determinable performance goals based on one or more of the following criteria: total return to shareholders; dividends; earnings per share; customer growth; cost reduction goals; the achievement of specified operational goals, including water quality and the reliability of water supply; measures of customer satisfaction; net income (before or after taxes) or operating income; earnings before interest, taxes, depreciation and amortization or operating income before depreciation and amortization; revenue targets; return on assets, capital or investment; cash flow; budget comparisons; implementation or completion of projects or processes strategic or critical to the Company's business operations; and any combination of, or a specified increase in, any of the foregoing.

(b) Establishment of Goals. The Committee shall establish the performance goals in writing either before the beginning of the performance period or during a period ending no later than the earlier of (i) 90 days after the beginning of the performance period or (ii) the date on which 25% of the performance period has been completed, or such other date as may be required or permitted under applicable regulations under section 162(m) of the Code. The performance goals shall satisfy the requirements for "qualified performance-based compensation," including the requirement that the achievement of the goals be substantially uncertain at the time they are established and that the goals be established in such a way that a third party with knowledge of the relevant facts could determine whether and to what extent the performance goals have been met. The Committee shall not have discretion to increase the amount of compensation that is payable upon achievement of the designated performance goals.

(c) Announcement of Grants. The Committee shall certify and announce the results for each performance period to all Grantees after the announcement of the Company's financial results for the performance period. If and to the extent that the Committee does not certify that the performance goals have been met, the grants of Stock Awards, Stock Units, Other Stock-Based Awards and Dividend Equivalents for the performance period shall be forfeited or shall not be made, as applicable.

(d) Death, Disability or Other Circumstances. The Committee may provide that Stock Awards, Stock Units, Other Stock-Based Awards and Dividend Equivalents shall be payable or restrictions on such Grants shall lapse, in whole or in part, in the event of the Grantee's death or Disability during the performance period, or under other circumstances consistent with the Treasury regulations and rulings under section 162(m) of the Code.

Section 13. Withholding of Taxes

(a) Required Withholding. All Grants under the Plan shall be subject to applicable federal (including FICA), state and local tax withholding requirements. The Employer may require that the Grantee or other person receiving or exercising Grants pay to the Employer the amount of any federal, state or local taxes that the Employer is required to withhold with respect to such Grants, or the Employer may deduct from other wages and compensation paid by the Employer the amount of any withholding taxes due with respect to such Grants.

(b) Election to Withhold Shares. The Committee may determine that the Company's tax withholding obligation with respect to Grants paid in Company Stock shall be satisfied by having shares of Company Stock withheld at the time such Grants become taxable. In addition, the Committee may allow Grantees to elect to have such share withholding applied to particular Grants. The election must be in a form and manner prescribed by the Company and may be subject to limits imposed by the Committee.

Section 14. Transferability of Grants

(a) Nontransferability of Grants. Except as provided below, only the Grantee may exercise rights under a Grant during the Grantee's lifetime. A Grantee may not transfer those rights except (i) by will or by the laws of descent and distribution or (ii) with respect to Grants other than Incentive Stock Options, pursuant to a domestic relations order. When a Grantee dies, the personal representative or other person entitled to succeed to the rights of the Grantee may exercise such rights. Any such successor must furnish proof satisfactory to the Company of his or her right to receive the Grant under the Grantee's will or under the applicable laws of descent and distribution.

(b) Transfer of Nonqualified Stock Options. Notwithstanding the foregoing, the Committee may provide, in a Grant Instrument, that a Grantee may transfer Nonqualified Stock Options to family members, or one or more trusts or other entities for the benefit of or owned by family members, consistent with the applicable securities laws, according to such terms as the Committee may determine; provided that the Grantee receives no consideration for the transfer of an Option and the transferred Option shall continue to be subject to the same terms and conditions as were applicable to the Option immediately before the transfer.

Section 15. Consequences of a Change in Control

(a) Treatment of Outstanding Grants. In the event of a Change in Control, the Committee may take one or more of the following actions with respect to any or all outstanding Grants: (i) accelerate the vesting of outstanding Options and SARs upon a specified termination of employment or service or upon the Change in Control; (ii) provide for the lapse of the restrictions and conditions on outstanding Stock Awards upon a specified termination of employment or service or upon the Change in Control; (iii) accelerate the vesting of Stock Units, Other Stock-Based Awards and unpaid Dividend Equivalent Amounts and provide that such Grants shall be paid at their target values, or in such greater amounts as the Committee may determine upon a specified termination of employment or service or upon the Change in Control; (iv) require that Grantees surrender their outstanding Options and SARs in exchange for one or more payments by the Company, in cash or Company Stock as determined by the Committee, in an amount equal to the amount, if any, by which the then Fair Market Value of the shares of Company Stock subject to the Grantee's unexercised Options and SARs exceeds the Exercise Price of the Options or the base amount of the SARs, as applicable; (v) after giving Grantees an opportunity to exercise their outstanding Options and SARs, terminate any or all unexercised Options and SARs at such time as the Committee deems appropriate; or (vi) determine that outstanding Options and SARs that are not exercised shall be assumed by, or replaced with comparable options or rights by, the surviving corporation, (or a parent or subsidiary of the surviving corporation), and other outstanding Grants that remain in effect after the Change in Control shall be converted to similar grants of the surviving corporation (or a parent or subsidiary of the surviving corporation). Any surrender or termination shall take place as of the date of the Change in Control or such other date as the Committee may specify. Without limiting the foregoing, if the per share Fair Market Value of Company Stock does not exceed the per share Exercise Price of an Option or base amount of a SAR, as applicable, the Company shall not be required to make any payment to the Grantee upon surrender or termination of the Option or SAR.

(b) Committee. The Committee making the determinations under this Section 15 following a Change in Control must be comprised of the same members as those on the Committee immediately before the Change in Control.

Section 16. Requirements for Issuance or Transfer of Shares

No Company Stock shall be issued or transferred in connection with any Grant hereunder unless and until all legal requirements applicable to the issuance or transfer of such Company Stock have been complied with to the satisfaction of the Committee. The Committee shall have the right to condition any Grant on the Grantee's undertaking in writing to comply with such restrictions on his or her subsequent disposition of the shares of Company Stock as the Committee shall deem necessary or advisable, and certificates representing such shares may be legended to reflect any such restrictions. Certificates representing shares of Company Stock issued or transferred under the Plan may be subject to such stop-transfer orders and other restrictions as the Company deems appropriate to comply with applicable laws, regulations and interpretations, including any requirement that a legend be placed thereon.

Section 17. Amendment and Termination of the Plan

(a) Amendment. The Board may amend or terminate the Plan at any time; provided, however, that the Board shall not amend the Plan without shareholder approval if such approval is required in order to comply with the Code or other applicable law, or to comply with applicable stock exchange requirements.

(b) No Repricing Without Shareholder Approval. Except in connection with a corporate transaction involving the Company (including, without limitation, any stock dividend, distribution (whether in the form of cash, Company Stock, other securities or other property), stock split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of Company Stock or other securities, or similar transaction), the Company may not, without obtaining shareholder approval: (i) amend the terms of outstanding Options or SARs to reduce the Exercise Price or base price (as applicable) of such outstanding Options or SARs; (ii) cancel outstanding Options or SARs in exchange for Options or SARs with an Exercise Price or base price, as applicable, that is less than the Exercise Price or base price of the original Options or SARs; or (iii) cancel outstanding Options or SARs with an Exercise Price or base price, as applicable, above the then current Company Stock price in exchange for cash or other securities. In addition, the Plan may not be amended to permit the actions in (i), (ii) or (iii), unless the Company obtains shareholder approval.

(c) Shareholder Re-Approval Requirement. If Stock Awards, Stock Units, Other Stock-Based Awards or Dividend Equivalents are granted as "qualified performance-based compensation" under Section 12 above, the Plan must be reapproved by the shareholders no later than the first shareholders meeting that occurs in the fifth year following the year in which the shareholders previously approved the provisions of Section 12, if required by section 162(m) of the Code or the regulations thereunder.

(d) Termination of Plan. The Plan shall terminate on May 7, 2019, unless the Plan is terminated earlier by the Board or is extended by the Board with the approval of the shareholders.

(e) Termination and Amendment of Outstanding Grants. A termination or amendment of the Plan that occurs after a Grant is made shall not materially impair the rights of a Grantee unless the Grantee consents or unless the Committee acts under Section 18(g) below. The termination of the Plan shall not impair the power and authority of the Committee with respect to an outstanding Grant. Whether or not the Plan has terminated, an outstanding Grant may be terminated or amended under Section 18(g) below or may be amended by agreement of the Company and the Grantee consistent with the Plan.

(f) Effective Date of the Plan Restatement. This 2017 restatement of the Plan shall be effective as of February 22, 2017; provided that, the provisions of Section 13(b) as set forth in this 2017 restatement of the Plan shall apply to all Grants that are outstanding as of such date and to all future Grants.

Section 18. Miscellaneous

(a) Grants in Connection with Corporate Transactions and Otherwise. Nothing contained in the Plan shall be construed to (i) limit the right of the Committee to make Grants under the Plan in connection with the acquisition, by purchase, lease, merger, consolidation or otherwise, of the business or assets of any corporation, firm or association, including Grants to employees thereof who become Employees, or (ii) limit the right of the Company to grant stock options or make other awards outside of the Plan. The Committee may make a Grant to an employee of another corporation who becomes an Employee by reason of a corporate merger, consolidation, acquisition of stock or property, reorganization or liquidation involving the Company, in substitution for a stock option or stock award grant made by such corporation. Notwithstanding anything in the Plan to the contrary, the Committee may establish such terms and conditions of the new Grants as it deems appropriate, including setting the Exercise Price of Options or the base price of SARs at a price necessary to retain for the Grantee the same economic value as the prior options or rights.

(b) Governing Document. The Plan shall be the controlling document. No other statements, representations, explanatory materials or examples, oral or written, may amend the Plan in any manner. The Plan shall be binding upon and enforceable against the Company and its successors and assigns.

(c) Funding of the Plan. The Plan shall be unfunded. The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any Grants under the Plan.

(d) Rights of Grantees. Nothing in the Plan shall entitle any Employee, Key Advisor, Non-Employee Director or other person to any claim or right to be granted a Grant under the Plan. Neither the Plan nor any action taken hereunder shall be construed as giving any individual any rights to be retained by or in the employ of the Employer or any other employment rights.

(e) Fractional Shares. No fractional shares of Company Stock shall be issued or delivered pursuant to the Plan or any Grant. Except as otherwise provided under the Plan, the Committee shall determine whether cash, other awards or other property shall be issued or paid in lieu of such fractional shares or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated. Notwithstanding the foregoing, as set forth in Section 4(d) above, in connection with any such adjustment described, the number of shares of Company Stock subject to any Grants made under the Plan may be rounded up or down, as determined by the Committee, in its sole discretion, subject to compliance with sections 162(m), 424 and 409A of the Code, as applicable, and the applicable limitations on shares of Company Stock under the Plan.

(f) Section 409A. The Plan is intended to comply with the requirements of section 409A of the Code, to the extent applicable. All Grants shall be construed and administered such that the Grant either (i) qualifies for an exemption from the requirements of section 409A of the Code or (ii) satisfies the requirements of section 409A of the Code. If a Grant is subject to section 409A of the Code, (i) distributions shall only be made in a manner and upon an event permitted under section 409A of the Code, (ii) payments to be made upon a termination of employment shall only be made upon a "separation from service" under section 409A of the

Code, (iii) payments to be made upon a Change of Control shall only be made upon a "change of control event" under section 409A of the Code, (iv) unless the Grant specifies otherwise, each payment shall be treated as a separate payment for purposes of section 409A of the Code, and (v) in no event shall a Grantee, directly or indirectly, designate the calendar year in which a distribution is made except in accordance with section 409A of the Code. Any Grant granted under the Plan that is subject to section 409A of the Code and that is to be distributed to a key employee (as defined below) upon separation from service shall be administered so that any distribution with respect to such Grant shall be postponed for six months following the date of the Grantee's separation from service, if required by section 409A of the Code. If a distribution is delayed pursuant to section 409A of the Code, the distribution shall be paid within 30 days after the end of the six-month period. If the Grantee dies during such six-month period, any postponed amounts shall be paid within 90 days of the Grantee's death. The determination of key employees, including the number and identity of persons considered key employees and the identification date, shall be made by the Committee or its delegate each year in accordance with section 416(i) of the Code and the "specified employee" requirements of section 409A of the Code.

(g) Compliance with Law. The Plan, the exercise of Options and SARs and the obligations of the Company to issue or transfer shares of Company Stock under Grants shall be subject to all applicable laws and regulations, and to approvals by any governmental or regulatory agency as may be required. With respect to persons subject to section 16 of the Exchange Act, it is the intent of the Company that the Plan and all transactions under the Plan comply with all applicable provisions of Rule 16b-3 or its successors under the Exchange Act. In addition, it is the intent of the Company that Incentive Stock Options comply with the applicable provisions of section 422 of the Code, that Grants of "qualified performance-based compensation" comply with the applicable provisions of section 162(m) of the Code and that, to the extent applicable, Grants comply with the requirements of section 409A of the Code. To the extent that any legal requirement of section 16 of the Exchange Act or section 422, 162(m) or 409A of the Code as set forth in the Plan ceases to be required under section 16 of the Exchange Act or section 422, 162(m) or 409A of the Code, that Plan provision shall cease to apply. The Committee may revoke any Grant if it is contrary to law or modify a Grant to bring it into compliance with any valid and mandatory government regulation.

(h) Employees Subject to Taxation Outside the United States. With respect to Grantees who are believed by the Committee to be subject to taxation in countries other than the United States, the Committee may make Grants on such terms and conditions, consistent with the Plan, as the Committee deems appropriate to comply with the laws of the applicable countries, and the Committee may create such procedures, addenda and subplans and make such modifications as may be necessary or advisable to comply with such laws.

(i) Company Policies. All Grants made under the Plan shall be subject to any applicable clawback or recoupment policies, share trading policies and other policies that may be implemented by the Board from time to time.

(j) Governing Law. The validity, construction, interpretation and effect of the Plan and Grant Instruments issued under the Plan shall be governed and construed by and determined in accordance with the laws of the Commonwealth of Pennsylvania, without giving effect to the conflict of laws provisions thereof.

Exhibit 21.1

AQUA AMERICA, INC. AND SUBSIDIARIES

The following table lists the significant subsidiaries and other active subsidiaries of Aqua America, Inc. at December 31, 2016:

Aqua Pennsylvania, Inc. (Pennsylvania)
Aqua Resources, Inc. (Delaware)
Aqua Services, Inc. (Pennsylvania)
Aqua Infrastructure, LLC (Pennsylvania)
Aqua Ohio, Inc. (Ohio)
Aqua Illinois, Inc. (Illinois)
Aqua New Jersey, Inc. (New Jersey)
Aqua North Carolina, Inc. (North Carolina)
Aqua Texas, Inc. (Texas)
Aqua Indiana, Inc. (Indiana)
Aqua Virginia, Inc. (Virginia)

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-197805, and 333-202392), on Form S-4 (No. 333-202393), and on Form S-8 (Nos. 033-52557, 033-53689, 333-26613, 333-70859, 333-81085, 333-61768, 333-107673, 333-113502, 333-116776, 333-126042, 333-148206, 333-156047, 333-159897, and 333-181389) of Aqua America, Inc. of our report dated February 24, 2017 relating to the consolidated financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
February 24, 2017

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER, PURSUANT TO RULE 13A-14(A) AS ADOPTED UNDER THE SECURITIES AND EXCHANGE ACT OF 1934

I, Christopher H. Franklin, certify that:

1. I have reviewed this annual report on Form 10-K of Aqua America, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Christopher H. Franklin

Christopher H. Franklin

President and Chief Executive Officer
February 24, 2017

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER, PURSUANT TO RULE 13A-14(A) AS ADOPTED UNDER THE SECURITIES AND EXCHANGE ACT OF 1934

I, David P. Smeltzer, certify that:

1. I have reviewed this annual report on Form 10-K of Aqua America, Inc.;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

2. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

3. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

4. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

\s\ David P. Smeltzer

David P. Smeltzer

Executive Vice President and Chief Financial Officer
February 24, 2017

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Annual Report on Form 10-K for the year ended December 31, 2016 of Aqua America, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher H. Franklin, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m(a) or Section 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Christopher H. Franklin

Christopher H. Franklin

President and Chief Executive Officer
February 24, 2017

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Annual Report on Form 10-K for the year ended December 31, 2016 of Aqua America, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David P. Smeltzer, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m(a) or Section 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David P. Smeltzer

David P. Smeltzer

Executive Vice President and Chief Financial Officer
February 24, 2017